ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Third Quarter of Fiscal 2021

For the 13-week and 39-week periods ended
November 29, 2020 and December 1, 2019

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at November 29, 2020 and March 1, 2020

(Unaudited, in thousands of Canadian dollars)

	Note	November 29, 2020	March 1, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 174,036	$ 117,750
Accounts receivable		5,513	6,555
Income taxes recoverable	16	7,139	2,157
Inventory	5	138,078	94,034
Prepaid expenses and other current assets	1	23,080	10,880
Total current assets		347,846	231,376
Property and equipment	1,6	194,676	184,637
Intangible assets	1,6	61,775	63,867
Goodwill	1	151,682	151,682
Right-of-use assets	1,2,7	378,578	380,360
Other assets		3,549	4,315
Deferred tax assets		16,214	20,478
Total assets		$ 1,154,320	$ 1,036,715
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	134,385	57,715
Income taxes payable	16	2,050	3,198
Current portion of lease liabilities	2,7	77,423	63,440
Deferred revenue		51,244	29,490
Total current liabilities		265,102	153,843
Lease liabilities	2,7	441,368	447,087
Other non-current liabilities	9	14,350	9,451
Deferred tax liabilities		18,299	19,529
Long-term debt	10	74,826	74,740
Total liabilities		813,945	704,650
Shareholders' equity			
Share capital	12	222,710	219,050
Contributed surplus		58,917	57,221
Retained earnings		59,147	56,476
Accumulated other comprehensive loss		(399)	(682)
Total shareholders' equity		340,375	332,065
Total liabilities and shareholders' equity		$ 1,154,320	$ 1,036,715

Commitments and contingencies (note 18)

Subsequent event (note 1)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Aritzia Inc.

Condensed Interim Consolidated Statements of Operations

For the 13-week and 39-week periods ended November 29, 2020 and December 1, 2019

(Unaudited, in thousands of Canadian dollars, except number of shares and per share amounts)

		13-week periods ended		39-week periods ended	
	Note	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Net revenue	1, 17	$ 278,254	$ 267,282	$ 589,798	$ 705,159
Cost of goods sold	1, 15	152,171	147,687	380,218	404,576
Gross profit		126,083	119,595	209,580	300,583
Operating expenses					
Selling, general and administrative	1	74,707	64,035	178,369	179,031
Stock-based compensation expense	13, 15	3,372	1,063	6,498	5,379
Income from operations		48,004	54,497	24,713	116,173
Finance expense	7,15	7,211	7,021	21,956	21,405
Other income	15	(1,532)	(216)	(1,405)	(831)
Income before income taxes		42,325	47,692	4,162	95,599
Income tax expense	16	11,823	12,889	1,005	26,720
Net income		$ 30,502	$ 34,803	$ 3,157	$ 68,879
Net income per share					
Basic	14	$ 0.28	$ 0.32	$ 0.03	$ 0.64
Diluted	14	0.27	0.31	0.03	0.62
Weighted average number of shares outstanding (thousands)					
Basic	14	109,494	108,515	109,415	108,148
Diluted	14	112,903	111,898	112,386	111,742

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

For the 13-week and 39-week periods ended November 29, 2020 and December 1, 2019

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Net income	$ 30,502	$ 34,803	$ 3,157	$ 68,879
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	67	46	283	(197)
Comprehensive income	$ 30,569	$ 34,849	$ 3,440	$ 68,682

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 39-week periods ended November 29, 2020 and December 1, 2019

(Unaudited, in thousands of Canadian dollars, except number of shares)

	Multiple voting shares		Subordinate voting shares					
	Shares	Amounts	Shares	Amounts	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance, March 3, 2019	44,531,768	$ 32,191	69,409,683	$ 167,326	$ 65,806	$ 109,339	$ (353)	$ 374,309
Adjustment on adoption of IFRS 16, Leases	-	-	-	-	-	(42,402)	-	(42,402)
Balance, March 4, 2019	44,531,768	$ 32,191	69,409,683	$ 167,326	$ 65,806	$ 66,937	$ (353)	$ 331,907
Net Income	-	-	-	-	-	68,879	-	68,879
Options exercised (note 13)	-	-	1,399,245	20,354	(11,159)	-	-	9,195
Stock-based compensation expense on equity-settled plans (note 13)	-	-	-	-	4,247	-	-	4,247
Share exchange at March 2019 Secondary Offering (note 12)	(14,996,824)	(10,841)	14,996,824	10,841	-	-	-	-
Shares repurchased for cancellation (notes 1 and 12)	(4,997,595)	(3,613)	(1,368,658)	(2,892)	-	(101,055)	-	(107,560)
Foreign currency translation adjustment	-	-	-	-	-	-	(197)	(197)
Balance, December 1, 2019	24,537,349	$ 17,737	84,437,094	$ 195,629	$ 58,894	$ 34,761	$ (550)	$ 306,471
Balance, March 1, 2020	24,537,349	$ 17,737	84,811,212	$ 201,313	$ 57,221	$ 56,476	$ (682)	$ 332,065
Net Income	-	-				3,157	-	3,157
Options exercised (note 13)	-	-	269,780	3,752	(2,617)	-	-	1,135
Stock-based compensation expense on equity-settled plans (note 13)	-	-	-	-	4,313	-	-	4,313
Shares repurchased for cancellation (note 12)	-	-	(38,664)	(92)	-	(486)	-	(578)
Foreign currency translation adjustment	-	-	-	-	-	-	283	283
Balance, November 29, 2020	24,537,349	$ 17,737	85,042,328	$ 204,973	$ 58,917	$ 59,147	$ (399)	$ 340,375

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Aritzia Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the 13-week and 39-week periods ended November 29, 2020 and December 1, 2019

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		39-week periods ended	
		November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Operating activities					
Net income for the period		$ 30,502	$ 34,803	$ 3,157	$ 68,879
Adjustments for:					
Depreciation and amortization	15	9,333	8,572	28,148	25,405
Depreciation on right-of-use-assets	7	16,834	14,932	49,868	43,963
Finance expense	15	7,211	7,021	21,956	21,405
Stock-based compensation expense	13, 15	3,372	1,063	6,498	5,379
Amortization of deferred lease inducements		(223)	(197)	(601)	(453)
Unrealized gain on equity derivative contracts		(1,776)	-	(1,061)	-
Other		-	(18)	(60)	(37)
Income tax expense	16	11,823	12,889	1,005	26,720
Rent and occupancy concessions	1, 7	(8,118)	-	(11,560)	-
Proceeds from lease incentives		2,051	2,292	6,366	9,102
Cash generated before non-cash working capital balances and interest and income taxes		71,009	81,357	103,716	200,363
Net change in non-cash working capital balances	20	39,821	42,034	48,734	22,432
Cash generated before interest and income taxes		110,830	123,391	152,450	222,795
Interest paid		(1,365)	(1,086)	(3,761)	(3,458)
Interest paid on lease liabilities		(8,507)	(5,925)	(17,193)	(17,897)
Income taxes paid		(4,657)	(7,459)	(4,940)	(27,262)
Net cash generated from operating activities		96,301	108,921	126,556	174,178
Financing activities					
Proceeds from revolving credit facility	10	-	-	100,000	25,000
Repayment of revolving credit facility	10	(100,000)	(20,000)	(100,000)	(25,000)
Repayment of principal on lease liabilities	7	(16,845)	(15,711)	(29,595)	(45,423)
Proceeds from options exercised	13	456	6,386	1,135	9,195
Shares repurchased for cancellation	12	-	(521)	(523)	(107,560)
Net cash used in financing activities		(116,389)	(29,846)	(28,983)	(143,788)
Investing activities					
Purchase of property and equipment	6	(12,384)	(12,877)	(38,830)	(34,086)
Purchase of intangible assets	6	(50)	(609)	(650)	(1,537)
Net cash used in investing activities		(12,434)	(13,486)	(39,480)	(35,623)
Effect of exchange rate changes on cash and cash equivalents		(696)	91	(1,807)	2
(Decrease) increase in cash and cash equivalents		(33,218)	65,680	56,286	(5,231)
Cash and cash equivalents - Beginning of period		207,254	29,986	117,750	100,897
Cash and cash equivalents - End of period		$ 174,036	$ 95,666	$ 174,036	$ 95,666
Supplemental cash flow information (note 20)					

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

1 Nature of operations and basis of presentation

Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the "Company") are an innovative design house and fashion boutique. The Company conceives, creates, develops and retails fashion brands. Each of the Company's exclusive brands has its own vision and distinct aesthetic point of view. As at November 29, 2020, the Company had 101 retail boutiques (December 1, 2019 – 94 retail boutiques).

Aritzia Inc. is a corporation governed by the Business Corporations Act (British Columbia). The address of its registered office is 666 Burrard Street, Suite 1700, Vancouver, B.C., Canada, V6C 2X8.

On March 8, 2019, the Company completed a secondary offering (the "March 2019 Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders. The March 2019 Secondary Offering of 19,505,000 subordinate voting shares raised gross proceeds of $329.6 million for the selling shareholders, at a price of $16.90 per subordinate voting share (the "March 2019 Offering Price"). The Company did not receive any proceeds from the March 2019 Secondary Offering. Underwriting fees were paid by the selling shareholders.

Concurrent with the completion of the March 2019 Secondary Offering, on March 8, 2019, the Company also completed its repurchase of 6,333,653 subordinate voting shares and multiple voting shares (the "Shares") for cancellation from certain shareholders, including an investment vehicle (the "Berkshire Shareholder") managed by Berkshire Partners LLC ("Berkshire") (the "Share Repurchase"). The purchase price per Share paid by the Company under the Share Repurchase was the same as the March 2019 Offering Price and resulted in an aggregate purchase price of $107.0 million paid to the selling shareholders. Total expenses related to the March 2019 Secondary Offering and Share Repurchase of $2.5 million were paid by the Company and were reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder.

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder has no remaining equity interest in the Company.

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "ATZ".

Basis of presentation

These unaudited condensed interim consolidated financial statements ("interim financial statements") have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements. Certain information, in particular the accompanying notes normally included in the audited annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended March 1, 2020 ("Fiscal 2020"). These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

Seasonality of operations

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its operating profit in the third and fourth quarters of each fiscal year as a result of increased net revenue during the back-to-school and holiday seasons.

These interim financial statements were authorized for issue on January 13, 2021 by the Company's Board of Directors.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus a worldwide pandemic, which continues to spread globally. On March 16, 2020, in line with recommendations by public health officials and guidance from local government authorities, the Company temporarily closed all of its retail boutiques in Canada and the United States. The Company's distribution centers remained opened under stringent health and safety protocols. On May 7, 2020, the Company began a phased reopening of its retail boutiques. As part of the reopening plan, the Company has implemented extensive health and safety measures designed to protect its people and clients. As of September 9, 2020, all of the Company's boutiques had reopened. With the reclosure of 18 boutiques on November 23, 2020, the Company had 82% of boutiques opened at the end of the quarter. Subsequent to November 29, 2020, 21 additional locations across Ontario and Quebec were temporarily closed in December 2020.

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The Company determined that it qualified for the Canada Emergency Wage Subsidy program under the COVID-19 Economic Response Plan in Canada and for the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in the United States. During the 13-week and 39-week periods ended November 29, 2020, the Company recognized payroll subsidies of $1.7 million and $29.6 million, respectively under the above mentioned programs. The subsidies were recorded as a reduction in the associated eligible salaries and wage costs which the Company incurred, recognized in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations. As at November 29, 2020, the Company had $6.7 million of wage subsidies receivable recorded in prepaid expenses and other current assets.

In May 2020, the IASB issued guidance in relation to accounting for rent concessions resulting from COVID-19. The Company has elected to apply the issued guidance for the annual period ending February 28, 2021 (note 3). For the 13-week and 39-week periods ended November 29, 2020, the Company recognized $9.1 million and $15.9 million, respectively, of rent and occupancy concessions in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

Net revenue is reported net of an estimated allowance for returns. As a result of its temporary boutique closures, the Company extended its return policies for purchases made in these boutiques.

Inventory is carried at the lower of cost and net realizable value. The Company periodically reviews its inventories and makes provisions as necessary to appropriately value obsolete or damaged goods. As a result of this analysis, as at November 29, 2020, the Company did not recognize any additional inventory provisions due to the impact of COVID-19.

The CARES Act in the United States further allows the immediate expensing of qualified leasehold improvement property purchased after December 31, 2017 and the carry back of net operating losses to prior years. These two measures resulted in the Company recognizing an income taxes receivable of $5.0 million, to be applied to income taxes payable in prior periods, and a decrease to total income tax expense of $1.3 million for the 39-week period ended November 29, 2020.

The temporary closure of all boutiques as a result of COVID-19 during the first quarter of Fiscal 2021 and the associated reduction in revenue were considered to be an indicator of impairment in the first quarter of Fiscal 2021. During the 13-week period ended May 31, 2020, the Company performed a recoverability assessment for its property and equipment, definite life intangible assets and right-of-use assets and as at May 31, 2020, the Company determined that that there was no impairment.

During the 13-week ended May 31, 2020, the Company also performed an impairment test over goodwill and indefinite life intangible assets and as at May 31, 2020, the Company determined that there was no impairment.

The Company's operations were significantly impacted by the COVID-19 pandemic during the first three quarters of Fiscal 2021. The extent of the impact of COVID-19 on future periods and for the annual period ending February 28, 2021 will depend on future developments, including the duration or resurgence of the pandemic, which are uncertain and cannot be predicted. Further or prolonged closures of the Company's boutiques could result in the reassessment of impairment of property and equipment, definite and indefinite life intangible assets, right-of-use assets and goodwill, and a provision to the net realizable value of the Company's inventories.

2 Summary of significant accounting policies

These interim financial statements have been prepared using the accounting policies as outlined in note 3 of the Fiscal 2020 audited consolidated financial statements, with the exception of the accounting standards adopted in the year ending February 28, 2021 ("Fiscal 2021"). Changes to significant accounting policies are described below.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

3 Significant new accounting standards

Standards recently adopted

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application was permitted. The Company adopted the amendment effective for the annual period ending February 28, 2021 and has elected to apply the provided practical expedient. The Company accounts for any change in lease payments resulting from a COVID-19-related rent concession the same way it would account for the change if the change were not a lease modification.

Standards issued but not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, IASB issued Classification of Liabilities as Current or Non-Current, which amends IAS 1 – Presentation of Financial Statements. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

4 Critical accounting estimates and judgments

The preparation of unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates (including about the future effects of the COVID-19 pandemic) and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continuously evaluated and are based on management's best judgments and experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in note 4 of the Fiscal 2020 audited consolidated financial statements.

5 Inventory

	November 29, 2020	March 1, 2020
Finished goods	$ 104,469	$ 84,601
Finished goods in transit	33,609	9,433
	$ 138,078	$ 94,034

The Company records a reserve to value inventory to its estimated net realizable value. This resulted in an expense in cost of goods sold of $0.8 million and $3.1 million for the 13-week and 39-week periods ended November 29, 2020 (13-week and 39-week periods ended December 1, 2019 - $0.2 million and $1.2 million, respectively). No inventory write-downs recorded in previous periods were reversed.

All of the Company's inventory is pledged as security for the Credit Facilities (note 10).

6 Property and equipment and intangible assets

During the 13-week and 39-week periods ended November 29, 2020, the Company had property and equipment additions of $16.7 million and $38.4 million, respectively, the majority of which were related to leasehold improvements made to its retail boutiques, the purchase of furniture and equipment for such boutiques and leasehold improvements made to its support office (13-week and 39-week periods ended December 1, 2019 - $14.5 million and $37.3 million, respectively). During the same periods, the Company also had intangible asset additions of $nil and $0.3 million, respectively, the majority of which were related to internally developed computer software (13-week and 39-week periods ended December 1, 2019 - $0.8 million and $1.8 million, respectively).

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

7 Leases

The following table reconciles the change in right-of-use assets for the 39-week period ended November 29, 2020:

		Right-of-use assets
Cost		
Balance, March 1, 2020	$	439,870
Additions, net of lease incentives received		59,247
Modifications		(6,004)
Foreign exchange		(8,895)
Balance, November 29, 2020	$	484,218
Accumulated depreciation		
Balance, March 1, 2020	$	59,510
Depreciation		49,868
Modifications		(1,408)
Foreign exchange		(2,330)
Balance, November 29, 2020	$	105,640
Net carrying value		
Balance, March 1, 2020	$	380,360
Balance, November 29, 2020	$	378,578

The following table reconciles the change in lease liabilities for the 39-week period ended November 29, 2020:

		Lease liabilities
Balance, March 1, 2020	$	510,527
Additions		63,836
Accretion of lease liabilities (note 15)		18,096
Repayment of interest and principal on lease liabilities		(46,788)
Rent concessions applicable to lease liabilities		(11,560)
Modifications		(4,766)
Foreign exchange		(10,554)
Balance, November 29, 2020	$	518,791
Current portion of lease liabilities		77,423
Lease liabilities		441,368
	$	518,791

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

8 Accounts payable and accrued liabilities

	November 29, 2020	March 1, 2020
Trade accounts payable	$ 81,679	$ 36,084
Other non-trade payables	22,412	6,856
Employee benefits payable	30,294	14,775
	$ 134,385	$ 57,715

9 Other non-current liabilities

	November 29, 2020	March 1, 2020
Deferred lease inducements	$ 7,305	$ 6,029
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 13)	5,245	3,061
Deferred payroll taxes	1,439	-
Asset retirement obligations	361	361
	$ 14,350	$ 9,451

10 Bank indebtedness and long-term debt

The Company has a term loan and revolving credit facility (collectively the "Credit Facilities") with its syndicate of lenders.

a) Long-term debt

	November 29, 2020	March 1, 2020
Term loan	$ 75,000	$ 75,000
Less: Deferred financing fees	(174)	(260)
Long-term debt	$ 74,826	$ 74,740

The term loan matures on May 22, 2022 and has no scheduled principal payments prior to maturity. Interest is paid on a monthly basis. Under the Credit Facilities, the Company has the option to borrow using Banker's Acceptance borrowings ("BA"), LIBO rate borrowings ("LIBO"), or Canadian prime rate borrowings ("Prime") plus a marginal interest rate between 0.50% and 2.50% (March 1, 2020 – 0.50% and 2.50%).

The term loan requires mandatory loan prepayments by the Company of principal and interest if certain events occur. As at November 29, 2020 and March 1, 2020, the Company was not required to make a mandatory loan prepayment.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

b) Bank indebtedness

The Company has a revolving credit facility of $100.0 million (March 1, 2020 - $100.0 million). The revolving credit facility bears interest at BA, LIBO or Prime plus a marginal rate between 0.50% and 2.50% (March 1, 2020 – 0.50% and 2.50%). Up to $10.0 million of the facility can be drawn upon by way of a swingline loan. During the 39-week period ended November 29, 2020, $100.0 million of the revolving credit facility was drawn and subsequently repaid. As of November 29, 2020 and March 1, 2020, no advances were made under this revolving credit facility.

The Company also has letters of credit facilities of $75.0 million, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.00% and 2.50%. The amount available under these facilities is reduced to $32.0 million (March 1, 2020 - $46.5 million) by certain open letters of credit (note 18(b)).

The Credit Facilities are collateralized by a first priority lien on all property and equipment, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. As at November 29, 2020 and March 1, 2020, the Company was in compliance with all financial covenants.

11 Derivative financial instruments

The Company has equity derivative contracts to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts are not designated as hedging instruments for accounting purposes. During the 13-week and 39-week periods ended November 29, 2020, the Company recorded an unrealized gain of $1.8 million and $1.1 million, respectively, for the change in fair value for these contracts in the consolidated statements of operations in other income (13-week and 39-week periods ended December 1, 2019 – nominal). As at November 29, 2020, the equity derivative contracts had a positive fair value of $1.7 million (March 1, 2020 – $0.7 million).

12 Share capital

On March 5, 2019, in connection with the March 2019 Secondary Offering and Share Repurchase, certain selling shareholders exchanged 14,996,824 of their multiple voting shares for subordinate voting shares (note 1).

On July 11, 2019, the Company announced the commencement of a normal course issuer bid (the “NCIB”) to repurchase and cancel up to 3,624,915 of its subordinate voting shares, representing approximately 5% of the public float, over the 12-month period commencing July 16, 2019 and ended July 15, 2020. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. The amounts paid above the average book value of the subordinate voting shares are charged to retained earnings.

On August 30, 2019, the Company entered into an automated share purchase plan (the “ASPP”) with a designated broker for the purpose of permitting the Company to purchase its subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by the Company under the ASPP. All purchases made under the ASPP will be included in computing the number of subordinate voting

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

shares purchased under the NCIB. The Company records a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP.

On March 17, 2020, the Company amended the ASPP under the NCIB such that the then authorized trading window ended March 17, 2020. On May 28, 2020, the Company further amended its ASPP such that no additional trading windows will be authorized, which effectively terminated any further purchases under the ASPP.

Between March 2, 2020 and March 17, 2020, the Company repurchased 38,664 subordinate voting shares for cancellation at an average price of $13.51 per subordinate voting share, for total cash consideration of $0.5 million, under the terms of the ASPP. During the 13-week and 39-week periods ended December 1, 2019, the Company repurchased 32,600 subordinate voting shares for cancellation at an average price of $15.97 per subordinate voting share, for total cash consideration of $0.5 million, under the terms of the ASPP.

As at November 29, 2020, there were 24,537,349 multiple voting shares and 85,042,328 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at November 29, 2020. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

13 Stock options

The Company has granted stock options under the Legacy Plan and the Option Plan.

Legacy Plan

Following completion of the IPO, no additional options will be granted under the Legacy Plan.

Transactions for stock options granted under the Legacy Plan for the periods ended on the dates indicated below were as follows:

	For the 39-week periods ended			
	November 29, 2020		December 1, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	3,624,983	$ 4.85	5,081,717	$ 4.64
Exercised	(245,161)	3.18	(1,021,312)	3.58
Forfeited	-	-	(130,746)	7.09
Outstanding, at end of period	3,379,822	$ 4.98	3,929,659	$ 4.83

Stock-based compensation expense (recovery) in relation to the options under the Legacy Plan for the 13-week and 39-week periods ended November 29, 2020 was $0.1 million and $0.5 million (13-week and 39-week periods ended December 1, 2019 – $(0.3) million and $0.8 million, respectively). Stock-based compensation

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

recovery for the 13-week period ended December 1, 2019 included a reversal in previously recognized stock-based compensation expense related to the forfeiture of unvested options from departed employees.

Option Plan

Transactions for stock options granted under the Option Plan for the periods ended on the dates indicated below were as follows:

	For the 39-week periods ended			
	November 29, 2020		December 1, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	4,158,524	$ 15.22	4,767,727	$ 14.81
Granted	1,248,078	18.67	346,588	17.91
Exercised	(24,619)	14.48	(377,933)	14.65
Forfeited	(138,699)	14.74	(539,050)	14.25
Outstanding, at end of period	5,243,284	$ 16.06	4,197,332	$ 15.15

The weighted average fair value of the time-based stock options granted during the 39-week period ended November 29, 2020 was estimated at the date of grant based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	35.4% to 36.1%
Risk-free interest rate	0.4%
Expected life	6.0 to 7.0 years
Exercise price	$18.29 to $22.90

Stock-based compensation expense in relation to the options under the Option Plan for the 13-week and 39-week periods ended November 29, 2020 was $1.7 million and $3.9 million (13-week and 39-week periods ended December 1, 2019 - $0.8 million and $3.4 million, respectively).

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

Director Deferred Share Unit ("DSU") Program

Each eligible director receives a portion of his or her annual director retainer in DSUs. DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. The Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was $3.4 million at November 29, 2020 (March 1, 2020 – $2.4 million), with an expense of $0.8 million and $0.9 million for the 13-week and 39-week periods ended November 29, 2020, respectively (13-week and 39-week periods ended December 1, 2019 - $0.4 million and $0.8 million, respectively), recorded as stock-based compensation expense.

Transactions for DSUs granted for the periods ended on the dates indicated below were as follows:

	For the 39-week periods ended	
	November 29, 2020	**December 1, 2019**
	Number of DSUs	**Number of DSUs**
Outstanding, at beginning of period	108,959	65,191
Granted	36,152	32,920
Outstanding, at end of period	145,111	98,111

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

Restricted Share Unit ("RSU") Program

RSUs vest on the third anniversary of the award date and at that time, are redeemable for cash based on the market value of the Company's shares. The Company is required to record a liability for the potential future settlement of the RSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the RSUs was $1.8 million as at November 29, 2020 (March 1, 2020 – $0.7 million), with an expense of $0.8 million and $1.2 million for the 13-week and 39-week periods ended November 29, 2020, respectively (13-week and 39-week periods ended December 1, 2019 - $0.2 million and $0.4 million, respectively), recorded as stock-based compensation expense.

Transactions for RSUs granted for the periods ended on the dates indicated below were as follows:

	For the 39-week periods ended	
	November 29, 2020	**December 1, 2019**
	Number of RSUs	**Number of RSUs**
Outstanding, at beginning of period	145,790	38,099
Granted	202,279	101,915
Forfeited	(2,842)	(8,233)
Outstanding, at end of period	345,227	131,781

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

14 Net income per share

a) Basic

Basic net income per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the period. As all the classes of shares are subject to the same distribution rights, the Company performs the net income per share calculations as if all shares are a single class.

	13-week periods ended		39-week periods ended	
	November 29, 2020	**December 1, 2019**	**November 29, 2020**	**December 1, 2019**
Net income attributable to shareholders of the Company	$ 30,502	$ 34,803	$ 3,157	$ 68,879
Weighted average number of shares outstanding during the period (thousands)	109,494	108,515	109,415	108,148
Basic net income per share	$ 0.28	$ 0.32	$ 0.03	$ 0.64

b) Diluted

Net income per diluted share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the period adjusted for the effects of potentially dilutive stock options.

	13-week periods ended		39-week periods ended	
	November 29, 2020	**December 1, 2019**	**November 29, 2020**	**December 1, 2019**
Net income attributable to shareholders of the Company	$ 30,502	$ 34,803	$ 3,157	$ 68,879
Weighted average number of shares for net income per diluted share (thousands)	112,903	111,898	112,386	111,742
Net income per diluted share	$ 0.27	$ 0.31	$ 0.03	$ 0.62

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

15 Expenses by nature

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Cost of goods sold				
Inventory and product-related costs and occupancy costs (note 1)	$ 128,453	$ 126,425	$ 309,363	$ 341,587
Depreciation expense on right-of-use-assets (note 7)	16,360	14,474	48,479	42,572
Depreciation expense on property and equipment	7,358	6,788	22,376	20,417
	$ 152,171	$ 147,687	$ 380,218	$ 404,576

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Personnel expenses				
Salaries, wages and employee benefits	$ 60,048	$ 47,968	$ 163,370	$ 136,831
Stock-based compensation expense	3,372	1,063	6,498	5,379
Government payroll subsidies (note 1)	(1,695)	-	(29,625)	-
	$ 61,725	$ 49,031	$ 140,243	$ 142,210

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Finance expense				
Interest expense on lease liabilities (note 7)	$ 5,900	$ 5,925	$ 18,096	$ 17,897
Interest expense and banking fees	1,258	1,043	3,701	3,349
Amortization of deferred financing fees	53	53	159	159
	$ 7,211	$ 7,021	$ 21,956	$ 21,405

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Other income				
Realized foreign exchange loss (gain)	$ 437	$ (334)	$ (2,687)	$ (1,111)
Unrealized foreign exchange loss	119	334	3,357	879
Unrealized gain on equity derivative contracts	(1,776)	-	(1,061)	-
Interest and other income	(312)	(216)	(1,014)	(599)
	$ (1,532)	$ (216)	$ (1,405)	$ (831)

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

16 Income taxes

The income tax expense (recovery) is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week and 39-week periods ended November 29, 2020 is 26.7% (13-week and 39-week periods ended December 1, 2019 – 26.8%). The Company's effective income tax rate for the 13-week and 39-week periods ended November 29, 2020 is 27.9% and 24.1%, respectively (13-week and 39-week periods ended December 1, 2019 – 27.0% and 28.0%, respectively). The effective tax rates are driven by the proportionate amount of non-deductible stock-based compensation expense on equity settled plans relative to net income.

17 Segment information

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate resources by the Chief Operating Decision Maker (the "CODM"). The Company has determined that the Chief Executive Officer is its CODM and there is one operating segment. Therefore, the Company reports as a single segment. This includes all sales channels accessed by the Company's clients, including sales through the Company's eCommerce website and sales at the Company's boutiques.

The following table summarizes net revenue by geographic location of the Company's clients:

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Canada	$ 185,861	$ 175,166	$ 401,910	$ 462,670
United States	92,393	92,116	187,888	242,489
	$ 278,254	$ 267,282	$ 589,798	$ 705,159

The Company's non-current, non-financial assets (property and equipment, intangible assets and goodwill, and right-of-use assets) are geographically located as follows:

	November 29, 2020	March 1, 2020
Canada	$ 471,253	$ 483,112
United States	315,458	297,434
	$ 786,711	$ 780,546

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

18 Commitments and contingencies

a) Product purchase obligations

At November 29, 2020, the Company had purchase obligations of $46.5 million (March 1, 2020 - $42.2 million), which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

b) Letters of credit

At November 29, 2020, the Company had open letters of credit of $43.0 million (March 1, 2020 - $28.5 million).

19 Related party transactions

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder sold its entire investment in the Company. As a result, effective March 8, 2019, the Company is ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company.

The Company entered into the following transactions with related parties:

a) During the 13-week and 39-week periods ended November 29, 2020, the Company made payments of $1.1 million and $3.1 million, respectively (13-week and 39-week periods ended December 1, 2019 - $0.9 million and $2.9 million, respectively) for a lease of premises and management services and $0.3 million and $0.6 million, respectively (13-week and 39-week periods ended December 1, 2019 - $0.2 million and $0.6 million, respectively) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. At November 29, 2020, $0.3 million was included in accounts payable and accrued liabilities (March 1, 2020 - $0.2 million).

b) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Salaries, directors' fees and short-term benefits	$ 1,248	$ 1,144	$ 3,305	$ 3,179
Stock-based compensation expense	1,468	816	2,308	2,192
	$ 2,716	$ 1,960	$ 5,613	$ 5,371

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

20 Supplemental cash flow information

	13-week periods ended		39-week periods ended	
	November 29, 2020	December 1, 2019	November 29, 2020	December 1, 2019
Net change in non-cash working capital balances				
Accounts receivable	$ (1,960)	$ (1,105)	$ (854)	$ 345
Prepaid expenses and other current assets	6,980	(74)	(11,529)	(1,446)
Inventory	2,560	13,527	(45,136)	(10,645)
Other assets	223	(1,919)	651	(2,362)
Accounts payable and accrued liabilities	12,260	19,847	83,143	23,805
Deferred revenue	19,758	11,758	22,459	12,735
	$ 39,821	$ 42,034	$ 48,734	$ 22,432
Accrued purchases of property and equipment			$ 6,332	$ 7,564
Accrued purchases of intangible assets			-	234

21 Financial risk management

The Company is exposed to a variety of financial risks in the normal course of operations including currency, interest rate, credit and liquidity risk, as summarized below. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's consolidated financial performance.

a) Market risk

Currency risk

The Company is exposed to foreign exchange risk on foreign currency denominated transactions, monetary assets and liabilities denominated in a foreign currency, and net investments in foreign operations. The Company sources the majority of its raw materials and merchandise from various suppliers in Asia and Europe with the vast majority of purchases denominated in U.S. dollars. In addition, the Company operates boutiques in the United States. The Company's foreign exchange risk is primarily with respect to the U.S. dollar and the Company has limited exposure to other currencies. Foreign currency forward contracts are used from time to time to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

As at November 29, 2020, a $0.01 variation in the Canadian dollar against the U.S. dollar on net monetary accounts in U.S. dollars would, with all other variables being constant, have an approximate favourable (or unfavourable) impact of $0.2 million on net income.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents and debt. Debt issued at variable rates exposes the Company to cash flow interest rate risk. Debt issued at fixed rates exposes the Company to fair value interest rate risk. During the 13-week and 39-week periods ended November 29, 2020, the Company had only variable interest rate debt. An increase (or decrease) in interest rate by 1% would result in an increase (or decrease) of $0.2 million and $0.6 million, respectively, in interest expense on the term loan.

Equity price risk

The Company is exposed to risk arising from the cash settlement of our deferred and restricted share units, as an appreciating subordinate voting share price increases the potential cash outflow. We record a liability for the potential future settlement of our deferred and restricted share units by reference to the fair value of the liability. We use equity derivative contracts to offset our cash flow variability of the expected payment associated with our deferred and restricted share units. We only enter into equity derivative contracts with major financial institutions. As at November 29, 2020, an increase (or decrease) in the Company's share price by $1.00 would result in an increase (or decrease) of $0.2 million in the fair value of the liability.

b) Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivable, and derivative contracts used to hedge market risks. The Company offsets credit risks associated with cash and cash equivalents by depositing its cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. The Company is exposed to credit risk on accounts receivable from its landlords for tenant allowances. To reduce this risk, the Company enters into leases with landlords with established credit history and, for certain leases, the Company may offset rent payments until accounts receivable are fully satisfied. The Company only enters into derivative contracts with major financial institutions.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company manages liquidity risk through various means, including monitoring actual and projected cash flows, taking into account the seasonality of its revenue, income and working capital needs. The Company's revolving credit facility is used to maintain liquidity. As at November 29, 2020 and March 1, 2020, no advances were made under this revolving credit facility. As at November 29, 2020, the Company also had available credit of $75.0 million under trade finance agreements (March 1, 2020 – $75.0 million), of which $43.0 million of letters of credit were outstanding (March 1, 2020 – $28.5 million).

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at November 29, 2020:

	Within one year	After one but not more than 5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 134,385	$ -	$ -	$ 134,385
Assumed interest on long-term debt [(1)]	2,060	982	-	3,042
Long-term debt	-	75,000	-	75,000
Total	$ 136,445	$ 75,982	$ -	$ 212,427

[(1)] Based on interest rates in effect as at November 29, 2020, and assuming no unscheduled principal payments are made prior to maturity.

22 Capital management

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to enable the internal financing of capital projects thereby facilitating its growth;
- provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business; and
- maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk and preserves the ability to meet financial obligations.

The Company defines capital as its Credit Facilities and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new boutique additions, existing boutique expansion and renovation projects, and other infrastructure investments. The Company currently funds these requirements out of its internally generated cash flows and Credit Facilities.

The Company is subject to financial covenants and collateral pursuant to the Credit Facilities presented in note 10.