

# ARITZIA

Aritzia Inc.

Consolidated Financial Statements  
**March 1, 2020 and March 3, 2019**  
(in thousands of Canadian dollars)



## *Independent auditor's report*

To the Shareholders of Aritzia Inc.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Aritzia Inc. and its subsidiaries (together, the Company) as at March 1, 2020 and March 3, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 1, 2020 and March 3, 2019;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



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## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
May 28, 2020

**Aritzia Inc.**  
**Consolidated Statements of Financial Position**  
As at March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars)

	Note	March 1, 2020	March 3, 2019
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 117,750	\$ 100,897
Accounts receivable		6,555	4,355
Income taxes recoverable	17	2,157	-
Inventory	5	94,034	112,183
Prepaid expenses and other current assets		10,880	18,422
Total current assets		231,376	235,857
Property and equipment	6	184,637	167,593
Intangible assets	7	63,867	64,427
Goodwill	7	151,682	151,682
Right-of-use assets	2, 8	380,360	-
Other assets		4,315	2,209
Deferred tax assets	2, 17	20,478	7,606
Total assets		\$ 1,036,715	\$ 629,374
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	2, 9	\$ 57,715	\$ 62,736
Income taxes payable	17	3,198	3,644
Current portion of lease liabilities	8	63,440	-
Deferred revenue		29,490	24,231
Total current liabilities		153,843	90,611
Lease liabilities	2, 8	447,087	-
Other non-current liabilities	10	9,451	69,828
Deferred tax liabilities	17	19,529	20,002
Long-term debt	11	74,740	74,624
Total liabilities		704,650	255,065
<b>Shareholders' equity</b>			
Share capital	13	219,050	199,517
Contributed surplus		57,221	65,806
Retained earnings	2	56,476	109,339
Accumulated other comprehensive loss		(682)	(353)
Total shareholders' equity		332,065	374,309
Total liabilities and shareholders' equity		\$ 1,036,715	\$ 629,374

Subsequent events (note 24)

Commitments (note 8 and 19)

Approved by the Board of Directors

Brian Hill Director

John Currie Director

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

Aritzia Inc.  
Consolidated Statements of Operations  
For the years ended March 1, 2020 and March 3, 2019

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

	Note	March 1, 2020	March 3, 2019
<b>Net revenue</b>	18	\$ 980,589	\$ 874,296
<b>Cost of goods sold</b>	16	577,165	531,383
<b>Gross profit</b>		403,424	342,913
<b>Operating expenses</b>			
Selling, general and administrative	16	243,362	215,297
Stock-based compensation expense	14, 16	7,790	11,540
<b>Income from operations</b>		152,272	116,076
Finance expense	16	28,319	4,821
Other income	16	(2,185)	(395)
<b>Income before income taxes</b>		126,138	111,650
Income tax expense	17	35,544	32,922
<b>Net income</b>		\$ 90,594	\$ 78,728
<b>Net income per share</b>			
Basic	15	\$ 0.84	\$ 0.70
Diluted	15	0.81	0.67
Weighted average number of shares outstanding (thousands)			
Basic	15	108,411	113,015
Diluted	15	112,128	117,358

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

Aritzia Inc.  
Consolidated Statements of Comprehensive Income  
For the years ended March 1, 2020 and March 3, 2019

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(in thousands of Canadian dollars)

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
<b>Net income</b>	\$ 90,594	\$ 78,728
<b>Other comprehensive income (loss)</b>		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	(329)	211
<b>Comprehensive income</b>	<u>\$ 90,265</u>	<u>\$ 78,939</u>

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

# Aritzia Inc.

## Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 1, 2020 and March 3, 2019

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

	Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total shareholders' equity
	Shares	Amounts	Shares	Amounts				
<b>Balance, February 25, 2018</b>	55,756,002	\$ 40,305	56,275,341	\$ 130,825	\$ 76,522	\$ 38,613	\$ (564)	\$ 285,701
Net income	-	-	-	-	-	78,728	-	78,728
Options exercised (note 14)	-	-	2,459,988	29,721	(21,664)	-	-	8,057
Stock-based compensation expense on equity-settled plans (note 14)	-	-	-	-	10,948	-	-	10,948
Normal course issuer bid purchase of subordinate voting shares (note 13)	-	-	(549,880)	(1,334)	-	(8,002)	-	(9,336)
Share exchange at August 2018 Secondary Offering (note 13)	(5,880,000)	(4,251)	5,880,000	4,251	-	-	-	-
Share exchange prior to March 2019 Secondary Offering (note 1)	(5,344,234)	(3,863)	5,344,234	3,863	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	211	211
<b>Balance, March 3, 2019</b>	44,531,768	\$ 32,191	69,409,683	\$ 167,326	\$ 65,806	\$ 109,339	\$ (353)	\$ 374,309
Adjustment on adoption of IFRS 16 (note 2)	-	-	-	-	-	(42,402)	-	(42,402)
<b>Balance, March 4, 2019</b>	44,531,768	\$ 32,191	69,409,683	\$ 167,326	\$ 65,806	\$ 66,937	\$ (353)	\$ 331,907
Net Income	-	-	-	-	-	90,594	-	90,594
Options exercised (Note 14)	-	-	1,773,363	26,038	(14,411)	-	-	11,627
Stock-based compensation expense on equity-settled plans (Note 14)	-	-	-	-	5,826	-	-	5,826
Share exchange at March 2019 Secondary Offering (Note 13)	(14,996,824)	(10,841)	14,996,824	10,841	-	-	-	-
Shares repurchased for cancellation (notes 1 and 13)	(4,997,595)	(3,613)	(1,368,658)	(2,892)	-	(101,055)	-	(107,560)
Foreign currency translation adjustment	-	-	-	-	-	-	(329)	(329)
<b>Balance, March 1, 2020</b>	24,537,349	\$ 17,737	84,811,212	\$ 201,313	\$ 57,221	\$ 56,476	\$ (682)	\$ 332,065

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

# Aritzia Inc.

## Consolidated Statements of Cash Flows

For the years ended March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars)

	Note	March 1, 2020	March 3, 2019
<b>Operating activities</b>			
Net income for the year		\$ 90,594	\$ 78,728
Adjustments for:			
Depreciation and amortization	6, 7, 8	93,502	27,065
Finance expense	16	28,319	4,821
Stock-based compensation expense	14	7,790	11,540
Amortization of deferred rent and deferred lease inducements		(652)	(905)
Unrealized foreign exchange loss on forward contracts	12	-	415
Unrealized gain on equity derivative contracts	12	(650)	-
Other		(37)	-
Income tax expense	17	35,544	32,922
Proceeds from lease incentives		11,537	12,148
Cash generated before non-cash working capital balances and interest and income taxes		265,947	166,734
Net change in non-cash working capital balances	21	18,625	(39,616)
Cash generated before interest and income taxes		284,572	127,118
Interest paid		(4,429)	(4,709)
Interest paid on lease liabilities		(23,763)	-
Income taxes paid		(34,304)	(26,234)
Net cash generated from operating activities		222,076	96,175
<b>Financing activities</b>			
Repayment of principal on lease liabilities	8	(61,469)	(454)
Proceeds from options exercised	14	11,627	8,057
Shares repurchased for cancellation	13	(107,560)	(9,391)
Repayment of long-term debt	11	-	(43,738)
Payment of financing fees	11	-	(667)
Net cash used in financing activities		(157,402)	(46,193)
<b>Investing activities</b>			
Purchase of property and equipment	6	(45,591)	(56,425)
Purchase of intangible assets	7	(2,199)	(5,585)
Net cash used in investing activities		(47,790)	(62,010)
<b>Effect of exchange rate changes on cash and cash equivalents</b>		(31)	450
<b>Increase (decrease) in cash and cash equivalents</b>		16,853	(11,578)
<b>Cash and cash equivalents - Beginning of year</b>		100,897	112,475
<b>Cash and cash equivalents - End of year</b>		\$ 117,750	\$ 100,897
<b>Supplemental cash flow information (note 21)</b>			

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

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
March 1, 2020 and March 3, 2019

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(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 March 1, 2020, the Company had 96 boutiques (March 3, 2019 – 91 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 August 7, 2018, the Company completed a secondary offering (the “August 2018 Secondary Offering”) on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders. The August 2018 Secondary Offering of 6,050,000 subordinate voting shares raised gross proceeds of \$100.1 million for the selling shareholders, at a price of \$16.55 per subordinate voting share. The Company did not receive any proceeds from the August 2018 Secondary Offering. Underwriting fees were paid by the selling shareholders, and other expenses related to the August 2018 Secondary Offering of \$0.4 million were paid by the Company.

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”.

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
March 1, 2020 and March 3, 2019

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(in thousands of Canadian dollars, unless otherwise noted)

**Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments, deferred share units and restricted share units, as disclosed in the accounting policies set out in note 3.

The Company’s fiscal year-end is the Sunday closest to the last day of February, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2019 was a 53-week year. All references to 2020 and 2019 represent the fiscal years ended March 1, 2020 and March 3, 2019, respectively.

**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 consolidated financial statements were authorized for issue on May 28, 2020 by the Company’s Board of Directors.

**2 Significant new accounting standards**

**Standards recently adopted**

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), which sets out a new model for lease accounting replacing IAS 17, Leases (“IAS 17”) and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period.

Substantially all of the Company’s existing leases are real estate leases for its boutiques, distribution centers and support offices and all were classified as operating leases prior to adoption of IFRS 16. The Company recognized right-of-use assets and lease liabilities for leases previously classified as operating leases under IAS 17. The depreciation expense on the right-of-use assets and the finance charge on the lease liabilities

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
 March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

substantially replaced the lease-related expenses recorded in costs of goods sold and selling, general and administrative expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee, but changes the presentation of the operating and financing cash flows presented on the Company's consolidated statements of cash flows.

The Company has elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- i) recognition exemption of short term leases;
- ii) recognition exemption of low-value leases;
- iii) grandfather prior conclusions on contracts containing leases on transition;
- iv) a single discount rate was applied to a portfolio of leases with similar characteristics on transition;
- v) initial direct costs were excluded in the measurement of the right-of-use assets on transition; and
- vi) hindsight was used in determining lease term at the date of transition.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at March 4, 2019. The right-of-use assets were measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. The cumulative adjustment was recognized directly to retained earnings at March 4, 2019.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	<b>As previously reported under IAS 17, March 3, 2019</b>	<b>IFRS 16 transition adjustments</b>	<b>Balance at March 4, 2019</b>
<b>Assets</b>			
Prepaid expenses and other current assets	\$ 18,422	\$ (9,510)	\$ 8,912
Right-of-use assets	-	372,563	372,563
Deferred tax assets	7,606	12,787	20,393
<b>Total impact on assets</b>		<b>\$ 375,840</b>	
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 62,736	\$ (6,446)	\$ 56,290
Income taxes payable	3,644	(2,646)	998
Lease liabilities	-	493,502	493,502
Other non-current liabilities	69,828	(64,685)	5,143
Deferred tax liabilities	20,002	(1,483)	18,519
Retained earnings	109,339	(42,402)	66,937
<b>Total impact on liabilities and shareholders' equity</b>		<b>\$ 375,840</b>	

Aritzia Inc.  
Notes to Consolidated Financial Statements  
March 1, 2020 and March 3, 2019

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(in thousands of Canadian dollars, unless otherwise noted)

The following table reconciles the operating lease commitments disclosed under IAS 17 as at March 3, 2019 and lease liabilities recognized on March 4, 2019 as a result of the adoption of IFRS 16:

Operating lease commitments disclosed as at March 3, 2019	\$ 675,422
Discounting	(93,048)
Adjustments as a result of a different treatment for extension options	5,378
Leases with a commencement date after March 3, 2019	<u>(94,250)</u>
Operating balance of lease liabilities as at March 4, 2019	<u>\$ 493,502</u>

The weighted average discount rate reflected in the lease liability recognized on transition was 4.87%.

### 3 Summary of significant accounting policies

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Aritzia LP, domiciled in Canada, and United States of Aritzia Inc, domiciled in the U.S. All intercompany transactions and balances are eliminated on consolidation, and consistent accounting policies are applied across the Company.

#### Functional and presentation currency

The functional currency for each entity included in these consolidated financial statements is the currency of the primary economic environment in which the entity operates. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

#### Translation of other foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currencies at the exchange rate at that date. Other consolidated statement of financial position items denominated in foreign currencies are translated into the functional currencies at the exchange rate prevailing at the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated into the functional currencies at average exchange rates during the period. The resulting gains or losses on translation are included in the determination of net income.

#### U.S. operations

Assets and liabilities of the Company's U.S. operations have a functional currency of U.S. dollars and are translated into Canadian dollars at the exchange rate in effect at the reporting date. Revenues and expenses are translated into Canadian dollars at average exchange rates during the reporting period. The resulting unrealized translation gains or losses are included in other comprehensive income (loss).

Aritzia Inc.  
Notes to Consolidated Financial Statements  
March 1, 2020 and March 3, 2019

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(in thousands of Canadian dollars, unless otherwise noted)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and investments in money market instruments with an original maturity of less than three months. As at March 1, 2020, the Company had \$92.9 million in cash held in money market instruments classified as cash equivalents (March 3, 2019 - \$44.9 million).

Prepaid expenses and other current assets

Prepaid expenses and other current assets comprise of prepaid expenses, deposits and packaging supplies.

Inventory

Inventory, consisting of finished goods, is carried at the lower of cost and net realizable value. Cost is determined using weighted average costs. Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centres including freight and duty.

The Company periodically reviews its inventories and makes provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, the Company accrues for inventory shrinkage for lost or stolen items based on historical trends.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The Company capitalizes borrowing costs incurred as part of the financing of the acquisition and construction of property and equipment. Maintenance and repairs are expensed as incurred. Cost and related accumulated depreciation for property and equipment are removed from the accounts upon their sale or disposition and the resulting gain or loss is reflected in the results of operations.

Depreciation is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment, commencing when the assets are ready for use, as follows:

Computer hardware and software	3 - 10 years
Furniture and equipment	3 - 10 years
Leasehold improvements	shorter of lease term and estimated useful life

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. Depreciation expense is recorded in the consolidated statements of operations in cost of goods sold and selling, general and administrative expenses.

Aritzia Inc.  
Notes to Consolidated Financial Statements  
March 1, 2020 and March 3, 2019

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(in thousands of Canadian dollars, unless otherwise noted)

#### Intangible assets

Intangible assets are recorded at cost and include trade names, trademarks, non-competition agreements, retail leases and internally developed computer software.

Costs to purchase any trademarks from third parties are capitalized and amortized over the useful lives of the assets. Cost includes all expenditures that are directly attributable to the acquisition or development of the asset.

The Company capitalizes, in intangible assets, direct costs incurred during the application and infrastructure development stages of developing computer software for internal use. All costs incurred during the preliminary project stage, including project scoping, identification and testing of alternatives, are expensed as incurred.

The Aritzia trade name has been determined to have an indefinite life and is not amortized. The remaining intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Other trade names and trademarks	term of registration or up to a maximum of 20 years
Retail leases included in other intangible assets	term of lease
Computer software	3 - 7 years

Estimates of useful lives, residual values and methods of amortization are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. Amortization expense is recorded in the consolidated statements of operations in selling, general and administrative expenses.

#### Goodwill

Goodwill represents non-identifiable intangible assets acquired on business combinations.

#### Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating unit or "CGU"). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Aritzia Inc.  
Notes to Consolidated Financial Statements  
March 1, 2020 and March 3, 2019

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(in thousands of Canadian dollars, unless otherwise noted)

#### Leases

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred.

#### Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company may be required to settle. The Company's asset retirement obligations are primarily associated with leasehold improvements that the Company is contractually obligated to remove at the end of a lease. At inception of a lease with such conditions, the Company recognizes the best estimate of the fair value of the liability, with a corresponding increase in the carrying value of the related asset. The liability, recorded in other non-current liabilities, is estimated based on a number of assumptions requiring management's judgment, including store closing costs, cost inflation rates and discount rates, and is accreted to its projected future value over time. The capitalized asset is depreciated over its useful life. Upon satisfaction of the asset retirement obligation conditions, differences between the recorded asset retirement obligation liability and the actual retirement costs incurred are recognized as a gain or loss in the consolidated statements of operations.

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#### Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire and financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The Company's financial assets, which includes cash and cash equivalents and accounts receivable, are classified as amortized cost. The Company's financial liabilities, which includes accounts payable and accrued liabilities and long term debt, are classified as amortized cost. The Company's foreign currency forward contracts and equity derivative contracts, if any, are classified as fair value through profit or loss ("FVTPL").

Financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as FVTPL:

- (i) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

Financial liabilities are initially measured at fair value, less any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

Financial assets and financial liabilities are measured at fair value using a valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions using the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 - Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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#### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### Share capital

Multiple voting shares and subordinate voting shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of shares are shown in equity as a deduction, net of tax, from the proceeds of the issuance. When share capital recognized as equity is re-purchased for cancellation, the amount of consideration paid, which includes directly attributable costs, net of tax, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to retained earnings.

#### Revenue recognition

The Company recognizes revenue when control of the goods or services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

Net revenue reflects the Company's sale of merchandise, less returns and discounts. Retail revenue at point-of-sale is measured at the fair value of the consideration received at the time the sale is made to the customer, net of discounts and estimated allowance for returns. For merchandise that is ordered and paid for in a boutique and subsequently picked up by or delivered to the customer, revenue is deferred until control of the merchandise has been transferred to the customer. eCommerce revenue is recognized at the date control has been transferred to the customer, and measured at the fair value of the consideration received, net of discounts and an estimated allowance for returns.

Revenues are reported net of sales taxes collected for various governmental agencies.

Receipts from the sale of gift cards are treated as deferred revenue. When gift cards are redeemed for merchandise, the Company recognizes the related revenue. The Company estimates gift card breakage, to the extent there is no requirement for remitting card balances to government agencies under unclaimed property laws, and recognizes revenue in proportion to actual gift card redemptions as a component of net revenue.

The Company recognizes promotional gift cards as a reduction of revenue upon redemption.

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**Cost of goods sold**

Cost of goods sold includes inventory and product-related costs and occupancy costs, as well as depreciation expense for the Company's stores and distribution centres.

**Selling, general and administrative**

Selling, general and administrative expenses consist of selling expenses that are generally variable with revenues and general and administrative operating expenses that are primarily fixed. Selling, general and administrative expenses also include depreciation and amortization expense for all support office assets and intangible assets.

**Store opening costs**

Store opening costs are expensed as incurred.

**Employee benefits**

Short-term employee benefit obligations, which include wages, salaries, compensated absences and bonuses, are expensed as the related service is provided.

Termination benefits are recognized as an expense when the Company has demonstrated commitment, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

**Income tax expense**

Current and deferred income taxes are recognized in the Company's net income, except to the extent that they relate to a business combination or items recognized directly in equity or other comprehensive income.

Current taxes are recognized for the estimated taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

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Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting nor taxable income or loss. In addition, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the asset and liability, using tax rates enacted or substantively enacted at the year-end date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### Stock-based compensation expense

##### Stock Option Plans

Prior to the Company's initial public offering (the "IPO") the Company had a legacy equity incentive plan (the "Legacy Plan") pursuant to which it has granted time-based and performance-based stock options to directors, employees, consultants and advisors.

Concurrent with the IPO, the Company implemented a new stock option plan (the "Option Plan"), pursuant to which it can grant time-based stock options to acquire subordinate voting shares to directors, executive officers, employees and consultants.

For awards with service conditions that are subject to graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. In addition, the total amount of compensation expense to be recognized is based on the number of awards expected to vest and is adjusted to reflect those awards that do ultimately vest.

##### Deferred Share Units and Restricted Share Units

The Company has a Director Deferred Share Unit ("DSU") Program for non employee board members and a Restricted Share Unit ("RSU") Program for employees and consultants. DSUs and RSUs are grants of notional subordinate voting shares that are redeemable for cash based on the market value of the Company's shares

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and are non-dilutive to shareholders. The cost of the service received as consideration is initially measured based on the market value of the Company's shares at the date of grant. The grant-date fair value is recognized as stock-based compensation expense with a corresponding increase recorded in other liabilities. DSUs and RSUs are remeasured at each reporting date based on the market value of the Company's shares with changes in fair value recognized as stock-based compensation expense for the proportion of the service that has been rendered at that date.

#### Net income per share

Basic net income per share is calculated by dividing the net income for the fiscal year attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the year.

Diluted net income per share is calculated by dividing the net income for the fiscal year attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the year, plus the weighted average number of subordinate voting shares that would be issued on exercise of dilutive options granted, as calculated under the treasury stock method.

## 4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates 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.

Significant judgments and estimates made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- The provision recorded to remeasure inventories based on the lower of cost and net realizable value (note 5), which is a critical estimate.
- Property and equipment and right-of-use asset impairment testing, which is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses, if any (note 6). These estimates include future cash flow projections, growth rates and discount rates.
- Goodwill and indefinite life intangible asset impairment testing, which requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. The recoverable value is determined using

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discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates (note 7).

- Stock-based compensation expense, which requires the use of judgment in determining the most appropriate inputs, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility and forfeiture rate (note 14).
- Gift card breakage, which requires the use of judgment in defining the Company's average gift card breakage rate, based on historical redemption rates (note 3). The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.
- Return allowances, which require judgement in determining the return rate of merchandise based on historical patterns of returns.
- Income taxes, which requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (note 17).
- Lease terms, which requires judgement on whether the Company is reasonably certain, at the lease commencement date, it will exercise available renewal or termination options, and thus include such options in the lease terms (note 8).
- Incremental borrowing rate used for calculating lease liabilities and right-of-use-assets. The Company determines the incremental borrowing rate of each leased asset as the rate of interest that the Company would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment (note 8).

## 5 Inventory

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Finished goods	\$ 84,601	\$ 98,324
Finished goods in transit	9,433	13,859
	<u>\$ 94,034</u>	<u>\$ 112,183</u>

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 \$2.1 million for the year ended March 1, 2020 (March 3, 2019 - \$3.2 million). 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 11).

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**6 Property and equipment**

	Leasehold improvements	Furniture and equipment	Computer hardware	Computer software	Construction- in- progress	Total
<b>Cost</b>						
Balance, February 25, 2018	169,605	38,214	12,625	6,121	23,349	249,914
Additions	26,596	9,085	3,348	356	14,566	53,951
Transfers from construction-in-progress	24,099	6,216	290	864	(31,469)	-
Dispositions	(15,011)	(4,057)	(1,011)	(240)	-	(20,319)
Foreign exchange	2,022	407	195	(87)	1,835	4,372
Balance, March 3, 2019	\$ 207,311	\$ 49,865	\$ 15,447	\$ 7,014	\$ 8,281	\$ 287,918
Additions	26,723	6,446	2,543	338	11,707	47,757
Transfers from construction-in-progress	2,771	1,308	332	6	(4,417)	-
Dispositions	(4,696)	(1,249)	(319)	(409)	-	(6,673)
Foreign exchange	990	193	36	5	84	1,308
Balance, March 1, 2020	\$ 233,099	\$ 56,563	\$ 18,039	\$ 6,954	\$ 15,655	\$ 330,310
<b>Accumulated depreciation</b>						
Balance, February 25, 2018	80,369	21,816	7,765	4,292	-	114,242
Depreciation	16,389	4,677	2,859	783	-	24,708
Dispositions	(15,011)	(4,057)	(1,011)	(240)	-	(20,319)
Foreign exchange	1,169	442	57	26	-	1,694
Balance, March 3, 2019	\$ 82,916	\$ 22,878	\$ 9,670	\$ 4,861	\$ -	\$ 120,325
Depreciation	21,462	6,055	3,055	826	-	31,398
Dispositions	(4,652)	(1,246)	(319)	(409)	-	(6,626)
Foreign exchange	419	124	29	4	-	576
Balance, March 1, 2020	\$ 100,145	\$ 27,811	\$ 12,435	\$ 5,282	\$ -	\$ 145,673
<b>Net carrying value</b>						
Balance, March 1, 2020	\$ 132,954	\$ 28,752	\$ 5,604	\$ 1,672	\$ 15,655	\$ 184,637
Balance, March 3, 2019	\$ 124,395	\$ 26,987	\$ 5,777	\$ 2,153	\$ 8,281	\$ 167,593

Construction-in-progress includes store build costs for stores not yet opened and support office projects not put into use.

During the year ended March 1, 2020, interest of \$165 was capitalized to assets under construction (March 3, 2019 - \$182). These interest costs relating to qualifying assets were capitalized at a weighted average rate of 3.49% (March 3, 2019 – 3.97%).

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**7 Goodwill and intangible assets**

	Indefinite life trade name	Definite life trade name	Trademarks	Computer software	Other intangible assets	Construction -in- progress	Total intangible assets
<b>Cost</b>							
Balance, February 25, 2018	46,092	17,175	1,709	26,725	3,519	-	95,220
Additions	-	-	210	3,989	-	1,198	5,397
Balance, March 3, 2019	\$ 46,092	\$ 17,175	\$ 1,919	\$ 30,714	\$ 3,519	\$ 1,198	\$ 100,617
Additions	-	-	90	304	-	2,070	2,464
Transfers from construction-in- progress	-	-	-	1,198	-	(1,198)	-
Dispositions	-	-	-	(7)	(3,519)	-	(3,526)
Balance, March 1, 2020	\$ 46,092	\$ 17,175	\$ 2,009	\$ 32,209	\$ -	\$ 2,070	\$ 99,555
<b>Accumulated amortization</b>							
Balance, February 25, 2018	-	10,240	1,709	18,365	3,519	-	33,833
Amortization	-	657	-	1,700	-	-	2,357
Balance, March 3, 2019	\$ -	\$ 10,897	\$ 1,709	\$ 20,065	\$ 3,519	\$ -	\$ 36,190
Amortization	-	656	-	2,368	-	-	3,024
Dispositions	-	-	-	(7)	(3,519)	-	(3,526)
Balance, March 1, 2020	\$ -	\$ 11,553	\$ 1,709	\$ 22,426	\$ -	\$ -	\$ 35,688
<b>Net carrying value</b>							
Balance, March 1, 2020	\$ 46,092	\$ 5,622	\$ 300	\$ 9,783	\$ -	\$ 2,070	\$ 63,867
Balance, March 3, 2019	46,092	6,278	210	10,649	-	1,198	64,427

Construction-in-progress includes internally generated computer software not put into use.

Until December 19, 2005, the operations of the Company were owned by a private, closely held Canadian company. On December 19, 2005, Berkshire purchased the majority of the operations through a newly created company, Aritzia Capital Corporation (renamed to Aritzia Inc.). The acquisition transaction was treated as a business combination and the identified assets and liabilities that were acquired were measured at their acquisition date fair values, including goodwill and the indefinite life trade name. During the years ended March 1, 2020 and March 3, 2019, there were no additions to goodwill.

Goodwill and the indefinite life trade name are monitored and allocated to the group of CGUs at a country level, based on the expected future benefits to be derived. The Company allocates goodwill to its Canadian operations only, while the Company allocates the indefinite life trade name to both Canadian and U.S. operations.

In assessing goodwill and the indefinite life trade name for impairment, the Company compared the aggregate recoverable amount of the assets included in each of the CGUs to their respective carrying amounts. The recoverable amounts have been determined based on the higher of the value in use and fair value less costs of

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disposal. The Company performed its annual impairment test of goodwill and the indefinite life trade name on the first day of the fourth quarter in fiscal 2020 and fiscal 2019.

The recoverable amount of goodwill and the indefinite life trade name was based on value in use, calculated using discounted cash flows over five years with a terminal value generated from continuing use of the CGUs. Cash flows were projected based on actual operating results, annual growth assumptions of 2.00% to account for what management believes approximates inflationary increases, and terminal growth assumption of 2.00%. A pre-tax discount rate of 9.93% was used in the model. A decrease in the growth assumptions by 1.00% would not cause the carrying amount to exceed the estimated recoverable amount. A decrease of the pre-tax discount rate by 1.00% would not cause the carrying amount to exceed the estimated recoverable amount.

As at March 1, 2020 and March 3, 2019, management has determined that there was no impairment of goodwill or the indefinite life trade name.

## 8 Leases

The following table reconciles the change in right-of-use assets for the year ended March 1, 2020:

	<b>Right-of-use assets</b>
<b>Cost</b>	
Balance on transition, March 4, 2019	\$ 372,563
Additions, net of lease incentives received	62,840
Modifications	1,777
Foreign exchange	2,690
	<hr/>
Balance, March 1, 2020	\$ 439,870
<b>Accumulated depreciation</b>	
Balance on transition, March 4, 2019	\$ -
Depreciation	59,080
Modifications	(27)
Foreign exchange	457
	<hr/>
Balance, March 1, 2020	\$ 59,510
<b>Net carrying value</b>	
Balance on transition, March 4, 2019	\$ 372,563
Balance, March 1, 2020	\$ 380,360

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The following table reconciles the change in lease liabilities for the year ended March 1, 2020:

	<b>Lease liabilities</b>
Balance on transition, March 4, 2019	\$ 493,502
Additions	73,518
Accretion of lease liabilities (note 16)	23,763
Repayment of interest and principal on lease liabilities	(85,232)
Modifications	1,765
Foreign exchange	3,211
	<hr/>
Balance, March 1, 2020	<u>\$ 510,527</u>
Current portion of lease liabilities	\$ 63,440
Lease liabilities	447,087
	<hr/>
	<u>\$ 510,527</u>

During the year ended March 1, 2020, the Company expensed \$5.2 million of variable lease payments, which are not included in the lease liabilities (March 3, 2019 - \$5.3 million).

During the year ended March 1, 2020, the Company expensed \$1.3 million of base rent payments relating to short-term leases for which the recognition exemption was applied and these payments were not included in the lease liabilities.

The future undiscounted minimum lease commitments for the Company's leases for its premises, excluding other occupancy charges and variable lease payments, are as follows:

Less than 1 year	\$ 86,179
Between 1 and 5 years	373,176
More than 5 years	182,179
	<hr/>
	<u>\$ 641,534</u>

## 9 Accounts payable and accrued liabilities

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Trade accounts payable	\$ 36,084	\$ 35,411
Other non-trade payables	6,856	11,687
Employee benefits payable	14,775	15,638
	<hr/>	<hr/>
	<u>\$ 57,715</u>	<u>\$ 62,736</u>

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**10 Other non-current liabilities**

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Deferred lease liability (note 2)	\$ -	\$ 40,256
Deferred lease inducements (note 2)	6,029	28,131
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 14)	3,061	1,097
Asset retirement obligations	361	344
	<u>\$ 9,451</u>	<u>\$ 69,828</u>

**11 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

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Term loan	\$ 75,000	\$ 75,000
Less: Deferred financing fees	(260)	(376)
Long-term debt	<u>\$ 74,740</u>	<u>\$ 74,624</u>

The term loan matures on May 22, 2022 and have 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 3, 2019 – 0.50% and 2.50%).

During the year ended March 1, 2020 the Company incurred \$2.9 million of interest (March 3, 2019 - \$3.4 million), at a weighted average rate of 3.49% (March 3, 2019 – 3.97%). As at March 1, 2020, the interest rate on the loan was 3.43% (March 3, 2019 – 3.57%), based on a one-month BA rate.

The term loan requires mandatory loan prepayments by the Company of principal and interest if certain events occur. As at March 1, 2020 and March 3, 2019, the Company was not required to make a mandatory loan prepayment.

The Company defers third party costs and creditor fees directly associated with acquiring long-term debt. These deferred costs are classified against long-term debt and bank indebtedness and are amortized as finance expense over the expected life of the related indebtedness using the effective interest rate method.

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b) Bank indebtedness

The Company has a revolving credit facility of \$100.0 million (March 3, 2019 - \$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 3, 2019 – 0.50% and 2.50%). Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan.

As at March 1, 2020 and March 3, 2019, 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 \$46.5 million (March 3, 2019 - \$31.9 million) by certain open letters of credit (note 19(b)).

The Credit Facilities are collateralized by a first priority lien on all property, plant and equipment, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. As at March 1, 2020 and March 3, 2019, the Company was in compliance with all financial covenants.

## 12 Derivative financial instruments

From time to time, the Company uses foreign currency forward contracts to manage its exposure to fluctuations with respect to the U.S. dollar for U.S. dollar merchandise purchases sold in Canada. The fair value of the forward contracts is included in prepaid expenses and other current assets or in accounts payable and accrued liabilities in the consolidated statements of financial position, depending on whether they represent assets or liabilities to the Company.

The amounts recorded in the consolidated statements of operations in other (income) expense include the unrealized change in fair value of foreign currency forward contracts during the year ended March 3, 2019, which was a loss of \$0.4 million. During the year ended March 3, 2019, the Company also realized a gain of \$2.3 million, in other (income) expense, arising from the settlement of foreign currency forward contracts.

The foreign currency forward contracts generally have a term of no more than 12 months.

During the year ended March 1, 2020, the Company entered into equity derivative contracts to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts were not designated as hedging instruments for accounting purposes. During the year ended December March 1, 2020, the Company recorded an unrealized gain of \$0.7 million for the change in fair value for these contracts in the consolidated statements of operations in other (income) expense.

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### 13 Share capital

On August 7, 2018, in connection with the August 2018 Secondary Offering, certain selling shareholders exchanged 5,880,000 of their multiple voting shares for subordinate voting shares (note 1).

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 ending 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. During the year ended March 1, 2020, the Company repurchased 32,600 subordinate voting shares for cancellation at an average price of \$15.97 (March 3, 2019 - repurchased 549,880 subordinate voting shares for cancellation at an average price of \$17.07 per subordinate voting share under the normal course issuer bid program effective during the year ended March 3, 2019).

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 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. As at March 1, 2020, no such liability was recorded.

As at March 1, 2020, there were 24,537,349 multiple voting shares and 84,811,212 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at March 1, 2020. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

### 14 Stock options

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

#### Legacy Plan

Following completion of the Company's IPO, no additional options will be granted under the Legacy Plan, and the outstanding options under the Legacy Plan are exercisable for subordinate voting shares of the Company. The options vest annually pro rata on the anniversary of the grant date over a period of five years. All issued options expire after 10 to 15 years from the date granted.

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Transactions for stock options granted under the Legacy Plan for the years ended March 1, 2020 and March 3, 2019 were as follows:

	March 1, 2020		March 3, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	5,081,717	\$ 4.64	7,748,370	\$ 4.09
Exercised	(1,325,988)	3.79	(2,345,238)	2.68
Forfeited	(130,746)	7.09	(321,415)	5.76
Outstanding, at end of year	3,624,983	\$ 4.85	5,081,717	\$ 4.64
Exercisable, at end of year	3,251,195	\$ 4.67	3,993,040	\$ 4.25

Information relating to stock options outstanding under the Legacy Plan and exercisable as at March 1, 2020 is as follows:

Exercise prices per share	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$0.01 to \$4.52	1,173,561	2.70	\$3.14	1,173,561	2.70	\$3.14
\$4.53 to \$5.24	1,226,448	2.25	\$4.95	1,226,448	2.25	\$4.95
\$5.25 to \$7.09	1,224,974	5.86	\$6.40	851,186	5.84	\$6.36
	3,624,983	3.62	\$4.85	3,251,195	3.35	\$4.67

Stock-based compensation expense in relation to the options under the Legacy Plan for the year ended March 1, 2020 was \$1.1 million (March 3, 2019 – \$2.4 million).

#### Option Plan

Options to acquire subordinate voting shares under the Option Plan may be granted to directors, executive officers, employees and consultants of the Company. The options vest annually pro rata on the anniversary of the grant date over a period of five years. All issued options expire after seven years from the date granted.

Transactions for stock options granted under the Option Plan for the years ended March 1, 2020 and March 3, 2019 were as follows:

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	March 1, 2020		March 3, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	4,767,727	\$ 14.81	4,947,348	\$ 14.80
Granted	385,408	18.44	305,721	16.00
Exercised	(447,375)	14.75	(114,750)	15.50
Forfeited	(547,236)	14.28	(370,592)	15.51
Outstanding, at end of year	4,158,524	\$ 15.22	4,767,727	\$ 14.81
Exercisable, at end of year	1,629,235	\$ 15.06	1,214,409	\$ 15.13

Information relating to stock options outstanding under the Option Plan and exercisable as at March 1, 2020 is as follows:

Exercise prices per share	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$12.99 to \$13.86	1,416,428	4.89	\$13.66	530,811	4.88	\$13.68
\$13.87 to \$16.04	1,664,301	3.84	\$15.22	774,932	3.83	\$15.36
\$16.05 to \$23.16	1,077,795	5.12	\$17.26	323,492	4.11	\$16.60
	4,158,524	4.53	\$15.22	1,629,235	4.23	\$15.06

The weighted average fair value of the time-based stock options granted during the year ended March 1, 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	34.0% to 37.0%
Risk-free interest rate	1.5% to 1.6%
Expected life	6.0 years
Exercise price	\$17.59 to \$23.16
Weighted average fair value of stock options estimated at the date of grant	\$6.83

Stock-based compensation expense in relation to the options under the Option Plan for the year ended March 1, 2020 was \$4.8 million (March 3, 2019 - \$8.6 million).

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**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. DSUs are granted quarterly and 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 \$2.4 million as at March 1, 2020 (March 3, 2019 - \$1.1 million), with an expense of \$1.3 million for the year ended March 1, 2020 (March 3, 2019 - \$0.5 million), recorded as stock-based compensation expense.

Transactions for DSUs granted for the years ended March 1, 2020 and March 3, 2019 were as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
	Number of DSUs	Number of DSUs
Outstanding, at beginning of year	65,191	40,220
Granted	43,768	24,971
Outstanding, at end of year	108,959	65,191
Vested, at end of year	108,959	65,191

**Restricted Share Unit (“RSU”) Program**

Effective October 3, 2018, the Company adopted the RSU Program for employees and consultants. 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 \$0.7 million as at March 1, 2020 (March 3, 2019 - \$30), with an expense of \$0.6 million for the year ended March 1, 2020 (March 3, 2019 - \$30), recorded as stock-based compensation expense.

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Transactions for RSUs granted for the years ended March 1, 2020 and March 3, 2019 were as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
	Number of RSUs	Number of RSUs
Outstanding, at beginning of year	38,099	-
Granted	116,364	38,099
Forfeited	(8,673)	-
Outstanding, at end of year	<u>145,790</u>	<u>38,099</u>
Vested, at end of year	-	-

## 15 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.

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Net income attributable to shareholders of the Company	\$ 90,594	\$ 78,728
Weighted average number of shares outstanding during the year ( <i>thousands</i> )	<u>108,411</u>	<u>113,015</u>
Basic net income per share	<u>\$ 0.84</u>	<u>\$ 0.70</u>

### 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.

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Net income attributable to shareholders of the Company	\$ 90,594	\$ 78,728
Weighted average number of shares for net income per diluted share ( <i>thousands</i> )	<u>112,128</u>	<u>117,358</u>
Net income per diluted share	<u>\$ 0.81</u>	<u>\$ 0.67</u>

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**16 Expenses by nature**

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
<b>Cost of goods sold</b>		
Inventory and product-related costs and occupancy costs	\$ 492,403	\$ 510,135
Depreciation expense (notes 2 and 8)	84,762	21,248
	<u>\$ 577,165</u>	<u>\$ 531,383</u>
<b>Personnel expenses</b>		
Salaries, wages and employee benefits <sup>1</sup>	\$ 184,556	\$ 177,152
Stock-based compensation expense (note 14)	7,790	11,540
	<u>\$ 192,346</u>	<u>\$ 188,692</u>
<b>Finance expense</b>		
Interest expense on lease liabilities (note 2 and 8)	23,763	-
Interest expense and banking fees	\$ 4,344	\$ 4,636
Amortization of deferred financing fees	212	185
	<u>\$ 28,319</u>	<u>\$ 4,821</u>
<b>Other (income) expenses</b>		
Realized foreign exchange gain	\$ (964)	\$ (3,003)
Unrealized foreign exchange gain (loss)	593	(1,250)
Unrealized gain on equity derivative contracts	(650)	-
Lease exit cost <sup>2</sup>	-	5,725
Offering transaction cost recovery	-	(171)
Interest and other income	(1,164)	(1,696)
	<u>\$ (2,185)</u>	<u>\$ (395)</u>

1 Salaries, wages and employee benefits for the year ended March 3, 2019 includes \$4.3 million of consultants and contractors related costs. For the year ended March 1, 2020, consultants and contractors related costs have been excluded from salaries, wages and employee benefits.

2 The lease exit cost of \$5.7 million related to an expense for the exit of a lease commitment for the planned repositioning of one of the Company's flagship boutiques. However, the Company was later able to secure a long term lease extension for its original flagship location.

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**17 Income taxes**

a) Income tax expense

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Current tax expense		
Current period	\$ 35,254	\$ 31,592
Adjustments with respect to prior periods	(875)	44
	<u>34,379</u>	<u>31,636</u>
Deferred tax expense		
Origination and reversal of temporary differences	462	1,291
Adjustments with respect to prior periods	879	(44)
Changes in substantively enacted tax rates	(176)	39
	<u>1,165</u>	<u>1,286</u>
Income tax expense	<u>\$ 35,544</u>	<u>\$ 32,922</u>

b) Reconciliation of effective tax rate

The Company's income tax expense differs from that calculated by applying the combined substantively enacted Canadian federal and provincial statutory income tax rates for the years ended March 1, 2020 and March 3, 2019 of 26.8% and 26.9%, respectively, as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Income before income taxes	<u>\$ 126,138</u>	<u>\$ 111,650</u>
Expected income tax expense	\$ 33,805	\$ 30,000
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation	1,561	2,942
Charitable contributions	(74)	(269)
Foreign tax rate differences	164	238
Changes in substantively enacted tax rates	(176)	39
Other	264	(28)
Income tax expense	<u>\$ 35,544</u>	<u>\$ 32,922</u>

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c) Deferred income tax

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at March 1, 2020 and March 3, 2019 are as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Deferred tax assets		
Capital leases	36,360	-
Deferred lease liability	\$ 1,810	\$ 20,258
Stock-based compensation	637	295
Financing and share issuance costs	1,004	1,281
Accounts payable and accrued liabilities	1,494	1,254
Charitable contributions	204	153
Other	2,634	2,619
	<hr/>	<hr/>
Total deferred tax assets	44,143	25,860
Deferred tax liabilities		
Goodwill and intangible assets	(23,664)	(22,788)
Property and equipment	(19,393)	(15,427)
Other	(137)	(41)
	<hr/>	<hr/>
Total deferred tax liabilities	(43,194)	(38,256)
Net deferred tax liability	<u>\$ 949</u>	<u>\$ (12,396)</u>

The net change in deferred income tax liabilities is recorded as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Deferred tax expense recorded in net income	\$ 1,166	\$ 1,286
Deferred tax expense (recovery recorded in retained earnings)	(14,271)	-
Deferred tax expense recorded in other comprehensive income (loss)	(240)	(296)
	<hr/>	<hr/>
	<u>\$ (13,345)</u>	<u>\$ 990</u>

Of the deferred income tax balances, the Company expects \$3.3 million of the deferred tax assets to be recovered within 12 months and \$1.1 million of the deferred tax liabilities to be settled within 12 months.

The Company intends to indefinitely reinvest the undistributed earnings of its foreign subsidiaries; accordingly, the Company has not recorded a deferred tax liability on these earnings.

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**18 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:

	<b>March 1, 2020</b>		<b>March 3, 2019</b>
Canada	\$ 642,973	\$	609,070
United States	337,616		265,226
	<u>\$ 980,589</u>	<u>\$</u>	<u>874,296</u>

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:

	<b>March 1, 2020</b>		<b>March 3, 2019</b>
Canada	\$ 483,112	\$	316,344
United States	297,434		67,358
	<u>\$ 780,546</u>	<u>\$</u>	<u>383,702</u>

**19 Commitments and contingencies**

a) Product purchase obligations

As at March 1, 2020, the Company had purchase obligations of \$42.2 million (March 3, 2019 - \$45.6 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 March 1, 2020, the Company had open letters of credit of \$28.5 million (March 3, 2019 - \$43.1 million).

**20 Related party transactions**

Prior to the August 2018 Secondary Offering, the Company was ultimately controlled by Canada Retail Holdings, L.P., being the Company’s ultimate parent and the Berkshire Shareholder. Effective August 7, 2018,

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upon completion of the August 2018 Secondary Offering, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of the Company. 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 year ended March 1, 2020, the Company made payments of \$4.0 million (March 3, 2019 - \$4.1 million), for a lease of premises and management services and \$0.6 million (March 3, 2019 - \$0.9 million) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at March 1, 2020, \$0.2 million was included in accounts payable and accrued liabilities (March 3, 2019 - \$0.1 million) and nil was included in prepaid expenses and other current assets (March 3, 2019 - \$0.1 million).
- b) Total reimbursements to Berkshire for travel, lodging and other costs for the year ended March 3, 2019 was \$0.1 million. As at March 3, 2019, \$2.5 million was included in accounts receivable relating to the March 2019 Secondary Offering and Share Repurchase (note 1) and has since been received as of March 8, 2019. As of March 8, 2019, the Berkshire Shareholder has no remaining equity interest in the Company; as such, transactions with Berkshire subsequent to March 8, 2019 are not considered related party transactions.
- c) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Salaries, directors' fees and short-term benefits	\$ 3,981	\$ 3,478
Stock-based compensation expense	3,111	3,695
	<u>\$ 7,092</u>	<u>\$ 7,173</u>

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**21 Supplemental cash flow information**

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Net change in non-cash working capital balances		
Accounts receivable	\$ 82	\$ (1,545)
Inventory	18,462	(34,457)
Prepaid expenses and other current assets	(1,351)	(1,714)
Other assets	(2,186)	(217)
Accounts payable and accrued liabilities	(1,444)	(6,181)
Deferred revenue	5,062	4,498
	<u>\$ 18,625</u>	<u>\$ (39,616)</u>
Supplemental cash flow information		
Accrued purchases of property and equipment	\$ 6,168	\$ 4,470
Accrued purchases of intangible assets	266	-

**22 Financial instruments and 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.

Risk management is carried out under practices approved by the Company's Audit Committee. This includes reviewing and making recommendations to the Board on the adequacy of the Company's risk management policies and procedures with regard to identifying the Company's principal risks and implementing appropriate systems and controls to manage these risks. Risk management covers many areas of risk including, but not limited to, foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Financial instruments by category

The classification of financial instruments and their carrying amounts are as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Financial assets		
Cash and cash equivalents	\$ 117,750	\$ 100,897
Accounts receivable	6,555	4,355
Equity derivative contracts	650	-
Financial liabilities		
Accounts payable and accrued liabilities	\$ 57,715	\$ 62,736
Long-term debt (net of deferred financing fees)	74,740	74,624

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The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the lease obligations is approximately equal to their carrying value. For the other financial liabilities, the fair value is as follows:

	<b>March 1, 2020</b>	<b>March 3, 2019</b>
Long-term debt (Level 2)	\$ 75,000	\$ 75,000
Equity derivative contracts (Level 2)	650	-

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 U.S. 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.

As at March 1, 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 \$0.3 million on net income.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents and long-term 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 year, the Company had only variable rate debt. An increase (or decrease) in interest rate by 1% would result in an increase (or decrease) of \$0.8 million in interest expense on the Credit Facilities.

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

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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 and equity derivative contracts with major financial institutions.

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 March 1, 2020, the Company had available credit of \$100.0 million (March 3, 2019 - \$100.0 million) under its revolving credit facility. Any amount drawn under this credit facility is presented as bank indebtedness in current liabilities based on the Company's estimate of what it expects to settle in the next 12 months. As at March 1, 2020, the Company also had available credit of \$75.0 million under trade finance agreements (March 3, 2019 – \$75.0 million), of which \$28.5 million of letters of credit were outstanding (March 3, 2019 – \$43.1 million).

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at March 1, 2020:

	Within one year	After one but not more than 5 years	After 5 years	Total
Accounts payable and accrued liabilities	\$ 57,715	\$ -	\$ -	\$ 57,715
Assumed interest on long-term debt <sup>(1)</sup>	2,562	3,154	-	5,716
Long-term debt	-	75,000	-	75,000
Total	<u>\$ 60,277</u>	<u>\$ 78,154</u>	<u>\$ -</u>	<u>\$ 138,431</u>

<sup>(1)</sup> Based on interest rates in effect as at March 1, 2020.

## 23 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 acceptable risk and preserves the ability to meet financial obligations.

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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 store additions, existing store 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 11.

## 24 Subsequent Events

The Company evaluates events or transactions that occur after the reporting period through to the date which the financial statements are authorized for issue, for potential recognition or disclosure in its consolidated financial statements in accordance with IAS 10, Events After The Reporting Period.

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, 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. As of May 28, 2020, the Company has reopened 27 boutiques in Canada and the U.S.

The Company expects the impacts of COVID-19 will have a material and adverse impact on revenue, operating cashflows and overall profitability in the next fiscal year.

Subsequent to March 1, 2020, to enhance its short-term liquidity, the Company drew down \$100.0 million, from its revolving credit facility.

Subsequent to March 1, 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. In addition, 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 26, 2020, the Board of Directors of the Company approved a resolution for the Company to further amend its ASPP such that no additional trading windows will be authorized, which will effectively terminate any further purchases under the ASPP.

On March 27, 2020, the United States Congress signed into law the "Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), allowing 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 will result in the Company recognizing an income taxes receivable of approximately \$5.6 million, to be applied to income taxes payable in future periods, and a decrease to total income tax expense of approximately \$1.5 million in the first quarter of next fiscal year.