

ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Third Quarter of Fiscal 2018

For the 13-week and 39-week periods ended
November 26, 2017 and November 27, 2016

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at November 26, 2017 and February 26, 2017

(Unaudited, in thousands of Canadian dollars)

	Note	November 26, 2017	February 26, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 105,179	\$ 79,527
Accounts receivable		3,655	2,624
Income taxes recoverable		888	-
Prepaid expenses and other current assets		12,788	12,743
Inventory	5	92,235	74,184
Total current assets		214,745	169,078
Property and equipment	6	126,498	95,695
Intangible assets		60,017	58,484
Goodwill		151,682	151,682
Other assets		1,739	2,052
Deferred tax assets		8,214	9,854
Total assets		\$ 562,895	\$ 486,845
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 65,680	\$ 50,484
Income taxes payable		192	19,222
Current portion of lease obligations		467	766
Current portion of long-term debt	9	15,300	15,288
Deferred revenue		27,300	15,749
Total current liabilities		108,939	101,509
Other non-current liabilities	8	56,556	47,711
Deferred tax liabilities		17,240	16,555
Lease obligations		46	983
Long-term debt	9	118,573	118,479
Total liabilities		301,354	285,237
Shareholders' equity			
Share capital	11	161,669	131,853
Contributed surplus		77,704	88,612
Retained earnings (deficit)		22,712	(18,480)
Accumulated other comprehensive loss		(544)	(377)
Total shareholders' equity		261,541	201,608
Total liabilities and shareholders' equity		\$ 562,895	\$ 486,845

Subsequent events (notes 12, 15 and 17)

Commitments and contingencies (note 17)

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Operations

For the 13-week and 39-week periods ended November 26, 2017 and November 27, 2016

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

	Note	13-week periods ended		39-week periods ended	
		November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Net revenue		\$ 204,449	\$ 186,460	\$ 523,463	\$ 470,785
Cost of goods sold	14	112,911	104,187	311,257	280,630
Gross profit		91,538	82,273	212,206	190,155
Operating expenses					
Selling, general and administrative		47,704	48,464	133,119	129,302
Stock-based compensation expense	12, 14	3,930	3,965	11,641	98,631
Income (loss) from operations		39,904	29,844	67,446	(37,778)
Finance expense	14	1,255	4,558	3,903	9,116
Other (income) expenses, net		(2,013)	(3,129)	2,181	(2,951)
Income (loss) before income taxes		40,662	28,415	61,362	(43,943)
Income tax expense	15	12,589	36,512	20,170	23,694
Net income (loss)		\$ 28,073	\$ (8,097)	\$ 41,192	\$ (67,637)
Net income (loss) per common share					
Basic	13	\$ 0.25	\$ (0.08)	\$ 0.38	\$ (0.65)
Diluted	13	0.24	(0.08)	0.35	(0.65)
Weighted average number of common shares outstanding (thousands)					
Basic	13	110,681	105,454	109,719	103,846
Diluted	13	116,168	105,454	116,198	103,846

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the 13-week and 39-week periods ended November 26, 2017 and November 27, 2016

(Unaudited, in thousands of Canadian dollars)

	<u>13-week periods ended</u>		<u>39-week periods ended</u>	
	<u>November 26, 2017</u>	<u>November 27, 2016</u>	<u>November 26, 2017</u>	<u>November 27, 2016</u>
Net income (loss)	\$ 28,073	\$ (8,097)	\$ 41,192	\$ (67,637)
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	92	135	(167)	71
Comprehensive income (loss)	<u>\$ 28,165</u>	<u>\$ (7,962)</u>	<u>\$ 41,025</u>	<u>\$ (67,566)</u>

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 39-week periods ended November 26, 2017 and November 27, 2016

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

	Class A common shares		Class C common shares		Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts				
Balance, February 28, 2016	110,987,688	\$ 66,507	62,781,263	\$ 8,864	-	\$ -	-	\$ -	\$ -	\$ 37,629	\$ (318)	\$ 112,682
Net loss	-	-	-	-	-	-	-	-	-	(67,637)	-	(67,637)
Share exchange pre-IPO (note 11)	(110,987,688)	(66,507)	(62,781,263)	(8,864)	168,715,036	72,343	5,053,915	3,028	-	-	-	-
Share consolidation (note 11)	-	-	-	-	(68,638,488)	-	(2,056,089)	-	-	-	-	-
Stock-based compensation liability modification to equity (note 12)	-	-	-	-	-	-	-	-	107,215	-	-	107,215
Options exercised (note 12)	-	-	-	-	-	-	3,891,721	42,591	(36,483)	-	-	6,108
Share exchange IPO (note 11)	-	-	-	-	(24,880,069)	-	24,880,069	-	-	-	-	-
Stock-based compensation expense (note 12)	-	-	-	-	-	-	-	-	25,466	-	-	25,466
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	71	71
Balance, November 27, 2016	-	\$ -	-	\$ -	75,196,479	\$ 72,343	31,769,616	\$ 45,619	\$ 96,198	\$ (30,008)	\$ (247)	\$ 183,905
Balance, February 26, 2017	-	\$ -	-	\$ -	55,756,002	\$ 72,343	53,016,459	\$ 59,510	\$ 88,612	\$ (18,480)	\$ (377)	\$ 201,608
Net income	-	-	-	-	-	-	-	-	-	41,192	-	41,192
Options exercised (note 12)	-	-	-	-	-	-	2,465,981	29,816	(22,342)	-	-	7,474
Stock-based compensation expense (note 12)	-	-	-	-	-	-	-	-	11,434	-	-	11,434
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	(167)	(167)
Balance, November 26, 2017	-	\$ -	-	\$ -	55,756,002	\$ 72,343	55,482,440	\$ 89,326	\$ 77,704	\$ 22,712	\$ (544)	\$ 261,541

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the 13-week and 39-week periods ended November 26, 2017 and November 27, 2016

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		39-week periods ended	
		November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Operating activities					
Net income (loss) for the period		\$ 28,073	\$ (8,097)	\$ 41,192	\$ (67,637)
Adjustments for:					
Depreciation and amortization		6,029	6,483	16,883	15,767
Finance expense	14	1,255	4,558	3,903	9,116
Stock-based compensation expense	12, 14	3,930	3,965	11,641	98,631
Amortization of deferred rent		2,061	354	6,977	1,893
Amortization of deferred lease inducements		(844)	(642)	(2,266)	(1,802)
Unrealized foreign exchange (gain) loss on forward contracts	10	(1,914)	(1,117)	465	(1,911)
Income tax expense	15	12,589	36,512	20,170	23,694
Other		-	-	(199)	-
Proceeds from deferred lease inducements		833	3,746	3,337	6,517
Cash generated before non-cash working capital balances and interest and income taxes		52,012	45,762	102,103	84,268
Net change in non-cash working capital balances	19	17,148	18,600	6,042	17,179
Cash generated before interest and income taxes		69,160	64,362	108,145	101,447
Interest paid		(1,024)	(1,152)	(3,586)	(5,312)
Income taxes paid		(4,918)	(2,605)	(38,010)	(14,209)
Net cash generated from operating activities		63,218	60,605	66,549	81,926
Financing activities					
Payment of long-term debt	9	-	(11,491)	-	(11,491)
Payment of financing fees		-	(827)	-	(827)
Repayment of lease obligations		(102)	(204)	(754)	(565)
Proceeds from options exercised	12	3,919	6,038	7,474	6,038
Net cash generated from (used in) financing activities		3,817	(6,484)	6,720	(6,845)
Investing activities					
Purchase of property and equipment	6	(17,032)	(6,201)	(44,007)	(19,423)
Purchase of intangible assets		(1,096)	(103)	(3,539)	(103)
Net cash used in investing activities		(18,128)	(6,304)	(47,546)	(19,526)
Effect of exchange rate changes on cash and cash equivalents					
		110	275	(71)	258
Increase in cash and cash equivalents		49,017	48,092	25,652	55,813
Cash and cash equivalents - Beginning of period		56,162	11,307	79,527	3,586
Cash and cash equivalents - End of period		\$ 105,179	\$ 59,399	\$ 105,179	\$ 59,399
Supplemental cash flow information (note 19)					

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

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

November 26, 2017

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

1 Nature of operations and basis of presentation

a) Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the "Company") is a design house and fashion retailer. The Company designs apparel and accessories for its collection of exclusive brands and sells them under the Aritzia banner. The Company's range of women's fashion apparel and accessories addresses a range of style preferences and lifestyle requirements. There were 84 and 77 retail stores as at November 26, 2017 and November 27, 2016, respectively.

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 10, 2016, the Company changed its name from Aritzia Capital Corporation to Aritzia Inc.

On October 3, 2016, the Company completed an initial public offering (the "IPO") of its subordinate voting shares through a secondary sale of shares by its principal shareholders.

The IPO of 25,000,000 subordinate voting shares at \$16.00 per subordinate voting share raised gross proceeds of \$400.0 million for the selling shareholders. In addition, such shareholders of the Company granted the underwriters an over-allotment option to purchase from the selling shareholders an additional 3,750,000 subordinate voting shares at an exercise price of \$16.00 per subordinate voting share. The over-allotment option was fully exercised after the IPO and raised additional gross proceeds of \$60.0 million for the selling shareholders. Underwriting fees were paid by the selling shareholders, and other expenses related to the IPO of approximately \$7.7 million were incurred and are being paid by the Company.

On January 26, 2017, the Company completed a secondary offering (the "Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders, as well as a concurrent block trade by a group of employees of the Company (the "Concurrent Block Trade").

The Secondary Offering of 20,100,000 subordinate voting shares and the sale of 1,788,366 subordinate voting shares through the Concurrent Block Trade raised gross proceeds of \$382.0 million for the selling shareholders, at a price of \$17.45 per subordinate voting share. Underwriting fees were paid by the selling shareholders, and other expenses related to the Secondary Offering of approximately \$0.8 million were incurred and paid by the Company.

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

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

November 26, 2017

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

b) Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed interim consolidated financial statements do not include all the information required for full annual financial statements and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 26, 2017 ("Fiscal 2017").

These unaudited condensed interim consolidated financial statements were authorized for issue by the Audit Committee of the Company's Board of Directors on January 10, 2018.

c) Seasonality of interim 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 fiscal quarters of each year as a result of increased net revenue during the back-to-school and holiday seasons.

2 Summary of significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as outlined in note 2 of the Fiscal 2017 audited consolidated financial statements.

3 Significant new accounting standards

Standards not yet adopted

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is in the final stages of analyzing the impact of the adoption of IFRS 15 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

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

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which reflects all phases of the financial instruments project and replaces IAS 39, "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. The new standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date. The Company has determined that adoption of IFRS 9 will have no significant impact on its consolidated financial statements with respect to the Company's historical debt modifications.

In January 2016, the IASB issued IFRS 16, "Leases", which sets out a new model for lease accounting replacing IAS 17. 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. Transitional provisions have been provided. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. While the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on the consolidated statements of financial position upon adoption. As a result, the Company expects IFRS 16 to have a fundamental change to the consolidated statements of financial position. The Company expects to apply the standard in accordance with its future mandatory effective date.

In June 2016, the IASB issued amendments to IFRS 2, "Share-based Payment", clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018, with early application permitted. The Company has determined that the adoption of IFRS 2 will have no significant impact on its consolidated financial statements.

4 Critical accounting estimates and judgments

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

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

November 26, 2017

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

In preparing these unaudited condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in note 4 of the Fiscal 2017 audited consolidated financial statements.

5 Inventory

	November 26, 2017	February 26, 2017
Finished goods	\$ 77,640	\$ 68,620
Finished goods in transit	14,595	5,564
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	\$ 92,235	\$ 74,184

The Company recorded inventory write-downs as a result of net realizable value being lower than cost, which were recognized in cost of goods sold, of \$0.3 million and \$1.0 million for the 13-week and 39-week periods ended November 26, 2017, respectively (13-week and 39-week periods ended November 27, 2016 - \$0.7 million and \$2.3 million, respectively). No inventory write-downs recorded in previous periods were reversed.

All of the Company's inventory is pledged as security for the credit facilities.

6 Property and equipment

During the 13-week and 39-week periods ended November 26, 2017, the Company had additions of \$20.0 million and \$47.6 million, respectively, the majority of which were related to leasehold improvements made to its retail stores and the purchase of furniture and equipment for such stores.

7 Accounts payable and accrued liabilities

	November 26, 2017	February 26, 2017
Trade accounts payable	\$ 37,326	\$ 30,028
Other non-trade payables	16,104	6,182
Employee benefits payable	12,250	14,274
	<hr/>	<hr/>
	\$ 65,680	\$ 50,484

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

November 26, 2017

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

8 Other non-current liabilities

	November 26, 2017	February 26, 2017
Deferred lease liability	\$ 35,995	\$ 29,970
Deferred lease inducements	19,267	16,675
Asset retirement obligations	911	889
Director Deferred Share Unit Program liability (note 12)	383	177
	<u>\$ 56,556</u>	<u>\$ 47,711</u>

9 Bank indebtedness and long-term debt

Concurrent with the closing of the IPO, the Company amended its term loan and revolving credit facility (collectively the "Credit Facilities") with its syndicate of lenders. The amendments included allowing the Company to enter into bilateral letters of credit agreements of up to \$75.0 million within different lenders, lowering the applicable margin on interest rates and amending other terms and conditions. As a result of the amendments, the Company wrote off unamortized deferred financing fees of \$2.9 million related to the previous Credit Facilities in finance expense for the 13-week and 39-week periods ended November 27, 2016. During the 39-week period ended November 26, 2017, the Company entered into a \$75.0 million trade finance agreement for letters of credit, secured pari passu with the Credit Facilities.

a) Long-term debt outstanding consists of the following as at:

	November 26, 2017	February 26, 2017
Term loan	\$ 134,059	\$ 134,059
Less: Deferred financing fees	(186)	(292)
	<u>133,873</u>	<u>133,767</u>
Less: Current portion	(15,300)	(15,288)
	<u>\$ 118,573</u>	<u>\$ 118,479</u>

The term loan matures on May 13, 2019 and requires mandatory loan prepayments by the Company of principal and interest if certain events occur. At November 26, 2017 and February 26, 2017, the Company was not required to make a mandatory loan prepayment.

b) Bank indebtedness

The Company has a revolving credit facility for operations of \$70.0 million (February 26, 2017 - \$70.0 million). The amount available under the credit facility was reduced by certain open letters of credit to \$54.1 million and \$50.7 million at November 26, 2017 and February 26, 2017, respectively. Up to \$5.0 million of the facility can be drawn upon by way of a swingline loan.

At November 26, 2017 and February 26, 2017, no advances were made under this facility.

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

These Credit Facilities are collateralized by a first priority lien on all assets, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. At November 26, 2017 and February 26, 2017, the Company was in compliance with all financial covenants.

10 Derivative financial instruments

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 condensed interim consolidated statements of financial position, depending on whether they represent assets or liabilities to the Company.

The amounts recorded in the condensed interim consolidated statements of operations in other (income) expenses, net relate to the change in fair value of foreign currency forward contracts during the 13-week and 39-week periods ended November 26, 2017 which were gains of approximately \$1.9 million and losses of approximately \$0.5 million, respectively (13-week and 39-week periods ended November 27, 2016 - gains of \$1.1 million and \$1.9 million, respectively).

The forward contracts generally have a term of no more than 12 months. The notional amount of these contracts outstanding at November 26, 2017 was USD\$40.5 million (February 26, 2017 - USD\$27.5 million) at an average forward rate of 1.2772 (February 26, 2017 - 1.3026). The forward contracts had a negative fair value of \$0.3 million as at November 26, 2017 (February 26, 2017 - positive fair value of \$0.2 million).

11 Share capital

Prior to the IPO, the Company's authorized share capital consisted of an unlimited number of Class A, Class B, Class C, Class D common shares and preferred shares. There were 110,987,688 Class A common shares and 62,781,263 Class C common shares issued and outstanding.

Immediately prior to the closing of the IPO, all of the outstanding Class A and Class C common shares were exchanged for either one multiple voting share or one subordinate voting share. The Company's Class B and Class D common shares and preferred shares were removed from the Company's authorized share capital. The Company's authorized share capital consists of (i) an unlimited number of subordinate voting shares, (ii) an unlimited number of multiple voting shares and (iii) an unlimited number of preferred shares, issuable in series. Each subordinate voting share is entitled to one vote and each multiple voting share is entitled to 10 votes on all matters upon which holders are entitled to vote.

Following the foregoing share exchanges, all of the Company's issued and outstanding multiple voting shares and subordinate voting shares were consolidated on a one-to-0.5931691091 basis.

Concurrent with the IPO and Secondary Offering, the selling shareholders exchanged a certain number of their multiple voting shares for subordinate voting shares.

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Notes to Condensed Interim Consolidated Financial Statements

November 26, 2017

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

As at November 26, 2017, there were 55,756,002 multiple voting shares and 55,482,440 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at November 26, 2017.

12 Stock options

The Company has a legacy Equity Incentive Plan (the "Legacy Plan") pursuant to which it has granted stock options to directors, employees, consultants and advisors. Concurrent with the IPO, the Company amended and restated the Legacy Plan to comply with public company provisions as required by the Toronto Stock Exchange and implemented a new stock option plan (the "2016 Option Plan"). In addition, in connection with the IPO, the Company adopted a Director Deferred Share Unit Program for non-employee board members.

Legacy Plan

Prior to the IPO, the Company had both time-based and performance-based options to acquire Class A or Class D common shares. Time-based and performance-based options annually vest pro rata on the anniversary of the grant date for a period of up to five years. Vested performance-based options become earned and exercisable upon a liquidation event based upon the majority shareholder's achievement of a certain internal rate of return. As a result of the IPO, a liquidation event was triggered and, as such, certain performance-based options under the Legacy Plan became earned and exercisable.

In connection with the IPO, options to acquire Class A and Class D common shares were also consolidated on a one-to-0.5931691091 basis for options exercisable to acquire subordinate voting shares at a post-consolidated exercise price such that the in-the-money value of such options remained unchanged.

Following completion of the IPO, no additional options are being granted under the Legacy Plan, and the outstanding options under the Legacy Plan are exercisable for subordinate voting shares of the Company. Outstanding stock options have a term of 10 years to 15 years.

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

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

	For the 39-week periods ended			
	November 26, 2017		November 27, 2016 ⁽¹⁾	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, at beginning of period	11,288,672	\$ 3.82	16,766,534	\$ 2.83
Granted	-	-	874,924	7.09
Exercised	(2,465,981)	3.03	(3,891,721)	1.57
Forfeited	(224,436)	4.04	(121,662)	4.01
Expired	(21,394)	2.36	-	-
Cancelled ⁽²⁾	-	-	(533,037)	3.56
Outstanding, at end of period	<u>8,576,861</u>	<u>\$ 4.04</u>	<u>13,095,038</u>	<u>\$ 3.45</u>

(1) This table reflects the options and exercise price after the one-to-0.5931691091 share consolidation which took effect immediately prior to the closing of the IPO.

(2) Upon closing of the IPO, the Company cancelled 533,037 performance-based options under the Legacy Plan.

a) Time-based options

The Legacy Plan in effect prior to the IPO provided that the Board of Directors, at its sole discretion, could elect to settle vested time-based options in cash upon the request of an option holder under certain circumstances. As a result of the Company having historically cash-settled vested time-based options for certain option holders prior to the IPO, the Company was considered to have a cash-settled plan. As a cash-settled plan, the Company was required to record a liability for the potential future settlement of the vested time-based options at each reporting date by reference to the fair value of the liability. Concurrent with the IPO, the Company amended the Legacy Plan to remove the cash settlement feature as of September 30, 2016. As a result of this modification, the Company accounts for the time-based options as an equity-settled plan from the date of modification.

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

The fair value of the recorded liability in relation to the time-based options at the date of modification, September 30, 2016, was \$107.2 million. This amount has been reclassified to contributed surplus on the condensed interim consolidated statements of financial position. The corresponding deferred tax asset of \$28.3 million has been reversed to income tax expense on the condensed interim consolidated statements of operations (note 15).

The weighted average fair value of the time-based stock options at the date of modification was estimated based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	44.0%
Risk-free interest rate	1.0%
Expected life	1.2 to 5.7 years
Exercise price (post share consolidation)	\$0.01 to \$7.09

The computation of expected volatility was based on the historical volatility of comparable companies from a representative peer group of publicly traded retail apparel companies. The expected life estimate was determined by management based on a number of factors including vesting terms, exercise behaviour and the contractual term of the options.

Stock-based compensation expense in relation to the time-based options for the 13-week and 39-week periods ended November 26, 2017 was \$1.2 million and \$3.5 million, respectively (13-week and 39-week periods ended November 27, 2016 was \$2.1 million and \$74.2 million, respectively). Included in the expense for the 13-week and 39-week periods ended November 27, 2016 was an adjustment for the fair value of the options based on an updated estimated share price of the Company up to the date of the plan modification, from being cash-settled to equity-settled, on September 30, 2016.

b) Performance-based options

The performance-based options are equity-settled. As such, the expense associated with performance-based options is recorded as stock-based compensation expense with a corresponding entry made to contributed surplus on the condensed interim consolidated statements of financial position.

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During August 2016, the Company concluded that it is probable that the performance conditions will be achieved and recognized stock-based compensation expense in relation to the performance-based options of \$0.4 million and \$1.0 million during the 13-week and 39-week periods ended November 26, 2017, respectively (13-week and 39-week periods ended November 27, 2016 was \$0.6 million and \$23.1 million, respectively).

The weighted average fair value of the performance-based stock options at the date of grant was estimated based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	43.1% to 54.8%
Risk-free interest rate	1.0% to 3.5%
Expected life	0.8 to 10.0 years
Exercise price (post share consolidation)	\$0.01 to \$7.09

2016 Option Plan

Concurrent with the IPO, the Company adopted the 2016 Option Plan pursuant to which it can grant share options to acquire subordinate voting shares to directors, executive officers, employees and consultants. The options vest annually pro rata on the anniversary of the grant date over a period of five years.

Transactions for stock options granted under the 2016 Option Plan for the periods ended on the dates indicated below were as follows:

	For the 39-week periods ended			
	November 26, 2017		November 27, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, at beginning of period	3,263,759	\$ 16.12	-	\$ -
Granted	1,278,080	13.82	2,625,614	16.00
Forfeited	(240,311)	16.12	-	-
Outstanding, at end of period	4,301,528	\$ 15.43	2,625,614	\$ 16.00

The weighted average fair value of the time-based stock options granted during the 39-week period ended November 26, 2017 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	42.0%
Risk-free interest rate	1.1% to 1.8%
Expected life	6 years
Exercise price	\$13.27 to \$14.20

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

Stock-based compensation expense in relation to the time-based options under the 2016 Option Plan for the 13-week and 39-week periods ended November 26, 2017 was \$2.2 million and \$6.8 million, respectively (13-week and 39-week periods ended November 27, 2016 was \$1.2 million and \$1.2 million, respectively).

Subsequent to period end, the Company cancelled 671,889 options under the 2016 Option Plan, which were granted to a director and officer of the Company. The cancellation of these options results in accelerated vesting in accordance with IFRS 2, and therefore an expense related to the remaining unexpensed grant date fair value of approximately \$2.3 million will be recognized. This amount will be recognized in stock-based compensation expense at the time of cancellation in the fourth quarter.

Director Deferred Share Unit Program

The Director Deferred Share Unit Program was adopted in conjunction with the IPO for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in deferred share units ("DSUs").

The grant of DSUs does not entitle any eligible director to dividends or other distributions on the Company's subordinate voting shares, or to exercise voting rights or any other rights attaching to the ownership of the subordinate voting shares, provided that the Board may determine if and when DSUs are to be credited with dividend equivalents based on the dividend policy of the Company at the relevant time.

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 \$0.4 million at November 26, 2017, with the expense for the 13-week and 39-week periods ended November 26, 2017 of \$0.1 million and \$0.3 million, respectively, recorded as stock-based compensation expense.

13 Net income per share

a) Basic

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

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	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016 ⁽¹⁾	November 26, 2017	November 27, 2016 ⁽¹⁾
Net income (loss) attributable to shareholders of the Company	\$ 28,073	\$ (8,097)	\$ 41,192	\$ (67,637)
Weighted average number of shares outstanding during the period (<i>thousands</i>)	110,681	105,454	109,719	103,846
Basic net income (loss) per share	\$ 0.25	\$ (0.08)	\$ 0.38	\$ (0.65)

⁽¹⁾ The weighted average number of shares outstanding was adjusted after giving effect, on a retrospective basis, to a one-to-0.5931691091 share consolidation that occurred in connection with the IPO.

b) Diluted

In calculating net income (loss) per diluted share for options that can be settled in either shares or cash, the more dilutive of the cash-settled and equity-settled method is used. Accordingly, stock options that are accounted for as cash-settled will require adjustments to the numerator and denominator if the equity-settled method is determined to have a more dilutive effect. The cash-settled method was more dilutive up to the date of modification for the 13-week and 39-week periods ended November 26, 2017.

	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016 ⁽¹⁾	November 26, 2017	November 27, 2016 ⁽¹⁾
Net income (loss) attributable to shareholders of the Company	\$ 28,073	\$ (8,097)	\$ 41,192	\$ (67,637)
Weighted average number of shares outstanding during the period (<i>thousands</i>)	116,168	105,454	116,198	103,846
Diluted net income (loss) per share	\$ 0.24	\$ (0.08)	\$ 0.35	\$ (0.65)

⁽¹⁾ The weighted average number of shares outstanding was adjusted after giving effect, on a retrospective basis, to a one-to-0.5931691091 share consolidation that occurred in connection with the IPO.

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14 Expenses by nature

	Cost of goods sold			
	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Inventory and product-related costs and occupancy costs	\$ 108,348	\$ 98,603	\$ 298,064	\$ 267,904
Depreciation expense	4,563	5,584	13,193	12,726
	<u>\$ 112,911</u>	<u>\$ 104,187</u>	<u>\$ 311,257</u>	<u>\$ 280,630</u>
	Personnel expenses			
	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Salaries, wages and employee benefits	\$ 37,727	\$ 37,560	\$ 107,886	\$ 100,431
Stock-based compensation expense	3,930	3,965	11,641	98,631
	<u>\$ 41,657</u>	<u>\$ 41,525</u>	<u>\$ 119,527</u>	<u>\$ 199,062</u>
	Finance expense			
	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Interest expense and banking fees	\$ 1,207	\$ 1,639	\$ 3,759	\$ 5,701
Write-off of deferred financing fees	-	2,867	-	2,867
Amortization of deferred financing fees	48	52	144	548
	<u>\$ 1,255</u>	<u>\$ 4,558</u>	<u>\$ 3,903</u>	<u>\$ 9,116</u>

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15 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that actual results differ from this estimated weighted average annual income tax rate, any adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week and 39-week periods ended November 26, 2017 is 26.4% (13-week and 39-week periods ended November 27, 2016 - 26.4%). The Company's effective income tax rate for the 13-week and 39-week periods ended November 26, 2017 is 31.0% and 32.9%, respectively (13-week and 39-week periods ended November 27, 2016 - 128.5% and (53.9%), respectively). Current period effective tax rates are higher than the statutory rate as a result of stock-based compensation expense not being deductible for tax purposes. The prior 13-week period effective tax rate is primarily due to a reversal of a deferred tax asset previously recognized on stock-based compensation liability for time-based options under the Legacy Plan to income tax expense, as the expense is no longer deductible for tax once it was modified from liability to equity accounting (note 12). The prior 39-week period effective tax rate is driven by stock-based compensation expense not being deductible for tax purposes, resulting in an increased income tax expense over a loss before income taxes.

On December 22, 2017, the United States passed into law H.R.1 (originally known as the "Tax Cuts and Jobs Act") which is a significant overhaul to the US tax system ("US Tax Reform"). One of the most substantial changes is a reduction in the US federal corporate tax rate from 35% to 21% beginning in 2018. Additionally, capital asset additions purchased subsequent to September 27, 2017 and before January 1, 2023 can be fully deducted. The Company will apply the rate reduction and all other relevant changes to its deferred tax assets and liabilities in the next quarter following when US Tax Reform was enacted as outlined by IAS 12. US Tax Reform is not expected to have a material impact on the Company's financial position in the next period.

16 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 customers, including sales through the Company's eCommerce website and sales at the Company's stores.

The following table summarizes net revenue by geographic location of customers:

	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Canada	\$ 152,745	\$ 140,018	\$ 382,405	\$ 347,280
United States	51,704	46,442	141,058	123,505
	<u>\$ 204,449</u>	<u>\$ 186,460</u>	<u>\$ 523,463</u>	<u>\$ 470,785</u>

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

	November 26, 2017	February 26, 2017
Canada	\$ 286,825	\$ 274,502
United States	51,372	31,359
	<u>\$ 338,197</u>	<u>\$ 305,861</u>

17 Commitments and contingencies

a) Operating leases

The Company conducts operations from leased stores, distribution centres and administrative offices.

Leases for certain of the Company's premises include renewal options, rent escalation clauses, and free-rent periods. Minimum annual commitments for the Company's operating leases for its premises, excluding other occupancy charges and additional rent based on a percentage of sales, are as follows:

Less than 1 year	\$ 79,686
Between 1 and 5 years	315,124
More than 5 years	<u>283,647</u>
Total	<u>\$ 678,457</u>

Subsequent to period end, the Company entered into additional operating leases, increasing the total minimum lease commitments by \$4.2 million.

b) Purchase obligations

At November 26, 2017 and February 26, 2017, the Company had purchase obligations of \$19.5 million and \$24.8 million, respectively, which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

c) Letters of credit

At November 26, 2017 and February 26, 2017, the Company had open letters of credit of \$21.4 million and \$19.3 million, respectively.

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18 Related party transactions

The Company is ultimately controlled by Canada Retail Holdings, L.P., also being the Company's ultimate parent. During the 13-week and 39-week periods ended November 26, 2017 and November 27, 2016, the Company entered into the following transactions with related parties:

- a) Berkshire Partners LLC ("Berkshire") is the investment manager to private equity funds that indirectly hold an ultimate controlling interest in the Company. Berkshire provided consulting and management advisory services to the Company pursuant to a Management Agreement dated December 19, 2005. Concurrent with the closing of the IPO, the Company terminated the Management Agreement with Berkshire.

During the 13-week and 39-week periods ended November 27, 2016, the Company incurred management fees of \$27 and \$190, respectively, for services rendered. Total reimbursements to Berkshire for travel, lodging and other costs for the 13-week and 39-week periods ended November 27, 2016 were \$71 and \$247, respectively.

- b) In connection with the IPO and Secondary Offering, the Company reimbursed in aggregate \$1.4 million in professional fees and other costs to the principal selling shareholders in accordance with the Company's obligations under the registration rights agreement. At November 26, 2017 and February 26, 2017, \$713 and \$948, respectively, was included in accounts payable and accrued liabilities.
- c) During the 13-week and 39-week periods ended November 26, 2017, the Company purchased \$1.4 million and \$9.6 million, respectively (13-week and 39-week periods ended November 27, 2016 - \$2.5 million and \$7.2 million, respectively), of merchandise from a company partially owned by private equity funds managed by Berkshire. At November 26, 2017 and February 26, 2017, \$30 and \$47, respectively, was included in accounts payable and accrued liabilities.
- d) During the 13-week and 39-week periods ended November 26, 2017, the Company paid \$929 and \$2.6 million, respectively (13-week and 39-week periods ended November 27, 2016 - \$641 and \$1.6 million, respectively), for rent of premises and the Company paid \$105 and \$105, respectively (13-week and 39-week periods ended November 27, 2016 - \$nil and \$nil, respectively), for use of a leased asset, wholly or partially owned by companies that are owned by a director and officer of the Company.

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

	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Salaries, directors' fees and short-term benefits	\$ 739	\$ 787	\$ 2,265	\$ 2,229
Stock-based compensation expense	1,142	1,198	4,032	13,008
	<u>\$ 1,881</u>	<u>\$ 1,985</u>	<u>\$ 6,297</u>	<u>\$ 15,237</u>

19 Supplemental cash flow information

	13-week periods ended		39-week periods ended	
	November 26, 2017	November 27, 2016	November 26, 2017	November 27, 2016
Net change in non-cash working capital balances				
Accounts receivable	\$ (26)	\$ (1,709)	\$ 518	\$ (175)
Prepaid expenses and other current assets	117	(2,015)	(686)	(3,020)
Inventory	5,238	469	(18,486)	(4,225)
Other assets	145	2,653	241	1,645
Accounts payable and accrued liabilities	(535)	7,836	12,782	11,847
Deferred revenue	12,209	11,366	11,673	11,107
	<u>\$ 17,148</u>	<u>\$ 18,600</u>	<u>\$ 6,042</u>	<u>\$ 17,179</u>
Supplemental cash flow information				
Accrued purchases of property and equipment			\$ 9,087	\$ 6,545
Accrued purchases of intangible assets			\$ 187	\$ 69