

ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Third Quarter of Fiscal 2020

For the 13-week and 39-week periods ended
December 1, 2019 and November 25, 2018

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at December 1, 2019 and March 3, 2019

(Unaudited, in thousands of Canadian dollars)

	Note	December 1, 2019	March 3, 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 95,666	\$ 100,897
Accounts receivable		4,625	4,355
Income taxes recoverable		1,350	–
Inventory	5	122,951	112,183
Prepaid expenses and other current assets	3	10,374	18,422
Total current assets		234,966	235,857
Property and equipment	6	181,975	167,593
Intangible assets	6	63,936	64,427
Goodwill		151,682	151,682
Right-of-use assets	3,7	370,388	–
Other assets		4,502	2,209
Deferred tax assets		21,765	7,606
Total assets		\$ 1,029,214	\$ 629,374
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,8	\$ 83,940	\$ 62,736
Income taxes payable		1,421	3,644
Current portion of lease liabilities	3,7	58,761	–
Deferred revenue		37,011	24,231
Total current liabilities		181,133	90,611
Lease liabilities	3,7	439,115	–
Other non-current liabilities	3,9	7,549	69,828
Deferred tax liabilities		20,235	20,002
Long-term debt	10	74,711	74,624
Total liabilities		722,743	255,065
Shareholders' equity			
Share capital	1,11	213,366	199,517
Contributed surplus		58,894	65,806
Retained earnings	1,3	34,761	109,339
Accumulated other comprehensive loss		(550)	(353)
Total shareholders' equity		306,471	374,309
Total liabilities and shareholders' equity		\$ 1,029,214	\$ 629,374

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 December 1, 2019 and November 25, 2018

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

	Note	13-week periods ended		39-week periods ended	
		December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Net revenue	16	\$ 267,282	\$ 242,876	\$ 705,159	\$ 615,246
Cost of goods sold	14	147,687	138,087	404,576	366,180
Gross profit		119,595	104,789	300,583	249,066
Operating expenses					
Selling, general and administrative		64,035	56,554	179,031	156,371
Stock-based compensation expense	12,14	1,063	2,896	5,379	8,944
Income from operations		54,497	45,339	116,173	83,751
Finance expense	7,14	7,021	1,101	21,405	3,602
Other income	14	(216)	(1,403)	(831)	(5,234)
Income before income taxes		47,692	45,641	95,599	85,383
Income tax expense	15	12,889	13,041	26,720	25,378
Net income		\$ 34,803	\$ 32,600	\$ 68,879	\$ 60,005
Net income per share					
Basic	13	\$ 0.32	\$ 0.29	\$ 0.64	\$ 0.53
Diluted	13	0.31	0.28	0.62	0.51
Weighted average number of shares outstanding (thousands)					
Basic	13	108,515	113,293	108,148	112,714
Diluted	13	111,898	117,681	111,742	117,328

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

For the 13-week and 39-week periods ended December 1, 2019 and November 25, 2018

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Net income	\$ 34,803	\$ 32,600	\$ 68,879	\$ 60,005
Other comprehensive income (loss) Items that are or may be reclassified subsequently to net income:				
Foreign currency translation adjustment	46	164	(197)	308
Comprehensive income	\$ 34,849	\$ 32,764	\$ 68,682	\$ 60,313

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 December 1, 2019 and November 25, 2018

(Unaudited, 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				
Balance, February 25, 2018	55,756,002	\$ 40,305	56,275,341	\$ 130,825	\$ 76,522	\$ 38,613	\$ (564)	\$ 285,701
Net income	–	–	–	–	–	60,005	–	60,005
Options exercised (note 12)	–	–	2,252,960	26,990	(19,808)	–	–	7,182
Stock-based compensation expense (note 12)	–	–	–	–	8,348	–	–	8,348
Normal course issuer bid purchase of subordinate voting shares (note 11)	–	–	(549,880)	(1,334)	–	(8,002)	–	(9,336)
Share exchange at August 2018								
Secondary Offering (note 11)	(5,880,000)	(4,251)	5,880,000	4,251	–	–	–	–
Foreign currency translation adjustment	–	–	–	–	–	–	308	308
Balance, November 25, 2018	49,876,002	\$ 36,054	63,858,421	\$ 160,732	\$ 65,062	\$ 90,616	\$ (256)	\$ 352,208
Balance, March 3, 2019	44,531,768	\$ 32,191	69,409,683	\$ 167,326	\$ 65,806	\$ 109,339	\$ (353)	\$ 374,309
Adjustment on adoption of IFRS 16 (note 3)	–	–	–	–	–	(42,402)	–	(42,402)
Balance, March 4, 2019	44,531,768	\$ 32,191	69,409,683	\$ 167,326	\$ 65,806	\$ 66,937	\$ (353)	\$ 331,907
Net Income	–	–	–	–	–	68,879	–	68,879
Options exercised (note 12)	–	–	1,399,245	20,354	(11,159)	–	–	9,195
Stock-based compensation expense (note 12)	–	–	–	–	4,247	–	–	4,247
Share exchange at March 2019								
Secondary Offering (note 11)	(14,996,824)	(10,841)	14,996,824	10,841	–	–	–	–
Shares repurchased for cancellation (notes 1 and 11)	(4,997,595)	(3,613)	(1,368,658)	(2,892)	–	(101,055)	–	(107,560)
Foreign currency translation adjustment	–	–	–	–	–	–	(197)	(197)
Balance, December 1, 2019	24,537,349	\$ 17,737	84,437,094	\$ 195,629	\$ 58,894	\$ 34,761	\$ (550)	\$ 306,471

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 December 1, 2019 and November 25, 2018

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		39-week periods ended	
		December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Operating activities					
Net income for the period		\$ 34,803	\$ 32,600	\$ 68,879	\$ 60,005
Adjustments for:					
Depreciation and amortization		23,504	6,858	69,368	19,710
Finance expense		7,021	1,101	21,405	3,602
Stock-based compensation expense	12,14	1,063	2,896	5,379	8,944
Amortization of deferred rent and deferred lease inducements		(197)	108	(453)	(400)
Unrealized foreign exchange loss on forward contracts		–	597	–	415
Other		(18)	–	(37)	(197)
Income tax expense	15	12,889	13,041	26,720	25,378
Proceeds from lease incentives		2,292	4,125	9,102	10,315
Cash generated before non-cash working capital balances and interest and income taxes		81,357	61,326	200,363	127,772
Net change in non-cash working capital balances	19	42,034	27,943	22,432	(2,986)
Cash generated before interest and income taxes		123,391	89,269	222,795	124,786
Interest paid		(1,086)	(1,026)	(3,458)	(3,522)
Interest paid on lease liabilities	7,14	(5,925)	–	(17,897)	–
Income taxes paid		(7,459)	(6,782)	(27,262)	(17,703)
Net cash generated from operating activities		108,921	81,461	174,178	103,561
Financing activities					
Repayment of revolving credit facility	10	(20,000)	–	–	–
Repayment of principal on lease liabilities	7	(15,711)	(117)	(45,423)	(361)
Proceeds from options exercised	12	6,386	4,229	9,195	7,182
Shares repurchased for cancellation	1,11	(521)	(4,744)	(107,560)	(8,553)
Repayment of long-term debt		–	–	–	(43,738)
Payment of financing fees		–	–	–	(667)
Net cash used in financing activities		(29,846)	(632)	(143,788)	(46,137)
Investing activities					
Purchase of property and equipment	6	(12,877)	(12,002)	(34,086)	(42,549)
Purchase of intangible assets	6	(609)	(1,071)	(1,537)	(4,784)
Net cash used in investing activities		(13,486)	(13,073)	(35,623)	(47,333)
Effect of exchange rate changes on cash and cash equivalents		91	289	2	474
Increase (decrease) in cash and cash equivalents		65,680	68,045	(5,231)	10,565
Cash and cash equivalents - Beginning of period		29,986	54,995	100,897	112,475
Cash and cash equivalents - End of period		\$ 95,666	\$ 123,040	\$ 95,666	\$ 123,040

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

December 1, 2019

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

1 Nature of operations and basis of presentation

Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the "Company") is a vertically integrated design house of exclusive fashion brands. The Company designs apparel and accessories for its collection of exclusive brands. The Company's assortment of women's fashion apparel and accessories addresses a range of style preferences and lifestyle requirements. As at December 1, 2019, there were 94 retail boutiques (November 25, 2018 - 92 retail boutiques).

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

On 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 Condensed Interim Consolidated Financial Statements
December 1, 2019

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

Basis of presentation

These unaudited condensed interim consolidated financial statements ("interim financial statements") have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements, with the exception of IFRS 16, Leases, as described in note 3 below. Certain information, in particular the accompanying notes normally included in the audited annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended March 3, 2019 ("Fiscal 2019"). These interim financial statements are presented in Canadian dollars, unless otherwise noted.

These interim financial statements were authorized for issue on January 8, 2020 by the Company's Board of Directors.

Seasonality of interim operations

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Accordingly, quarterly performance is not necessarily indicative of annual performance. 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.

2 Summary of significant accounting policies

These interim financial statements have been prepared using the accounting policies as outlined in note 3 of the Fiscal 2019 audited consolidated financial statements, with the exception of the accounting standards adopted in the year ending March 1, 2020 ("Fiscal 2020"). Changes to significant accounting policies are described below.

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

3 Significant new accounting standards

Standards recently adopted

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 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

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

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:

	As previously reported under IAS 17, March 3, 2019	IFRS 16 transition adjustments	Balance at March 4, 2019
Assets			
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
	<u>\$ 375,840</u>		
Total impact on assets			
Liabilities			
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
	<u>\$ 375,840</u>		
Total impact on liabilities and shareholders' equity			

Upon adoption of IFRS 16, the Company updated its lease accounting policies as follows:

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

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

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.

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.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in note 4 of the Fiscal 2019 audited consolidated financial statements, except as noted below relating to the adoption of IFRS 16.

The Company exercises judgment in determining the appropriate lease term on a lease by lease basis and considers all facts and circumstances that create an economic incentive to exercise a renewal or termination option. The periods covered by renewal options are included in the least term only if the Company is reasonably certain it will exercise such renewal options.

The Company uses the lessee's incremental borrowing rate when determining the carrying amount of right-of-use assets and lease liabilities, as the interest rates implicit in the lease agreements are not readily available. 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.

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

5 Inventory

	December 1, 2019	March 3, 2019
Finished goods	\$ 108,406	\$ 98,324
Finished goods in transit	14,545	13,859
	<u>\$ 122,951</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 \$0.2 million for the 13-week period ended December 1, 2019 and an expense of \$1.2 million for the 39-week period ended December 1, 2019 (for the 13-week and 39-week periods ended November 25, 2018 - an expense of \$1.1 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 (note 10).

6 Property and equipment and intangible assets

During the 13-week and 39-week periods ended December 1, 2019, the Company had property and equipment additions of \$14.5 million and \$37.3 million, respectively, the majority of which were related to leasehold improvements made to its retail boutiques and the purchase of furniture and equipment for such boutiques (during the 13-week and 39-week periods ended November 25, 2018 - \$8.3 million and \$39.2 million, respectively). During the same periods, the Company also had intangible asset additions of \$0.8 million and \$1.8 million, respectively, the majority of which were related to internally developed computer software (during the 13-week and 39-week periods ended November 25, 2018 - \$0.6 million and \$4.6 million, respectively).

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

7 Leases

The following table reconciles the change in right-of-use assets for the 39-week period ended December 1, 2019:

	Right-of-use assets
Cost	
Balance on transition, March 4, 2019	\$ 372,563
Additions, net of lease incentives received	37,653
Modifications	3,964
Foreign exchange	166
	<hr/>
Balance, December 1, 2019	\$ 414,346
Accumulated depreciation	
Balance on transition, March 4, 2019	\$ -
Depreciation	43,965
Modifications	(27)
Foreign exchange	20
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Balance, December 1, 2019	\$ 43,958
Net carrying value	
Balance on transition, March 4, 2019	\$ 372,563
Balance, December 1, 2019	\$ 370,388

The following table reconciles the change in lease liabilities for the 39-week period ended December 1, 2019:

	Lease liabilities
Balance on transition, March 4, 2019	\$ 493,502
Additions	45,574
Accretion of lease liabilities (note 14)	17,897
Repayment of interest and principal on lease liabilities	(63,320)
Modifications	3,953
Foreign exchange	270
	<hr/>
Balance, December 1, 2019	\$ 497,876
Current portion of lease liabilities	\$ 58,761
Lease liabilities	439,115
	<hr/>
	\$ 497,876

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 1, 2019

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

8 Accounts payable and accrued liabilities

	December 1, 2019	March 3, 2019
Trade accounts payable	\$ 41,378	\$ 35,411
Other non-trade payables	21,293	11,687
Employee benefits payable	21,269	15,638
	<u>\$ 83,940</u>	<u>\$ 62,736</u>

9 Other non-current liabilities

	December 1, 2019	March 3, 2019
Deferred lease liability (note 3)	\$ -	\$ 40,256
Deferred lease inducements (note 3)	4,965	28,131
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 12)	2,230	1,097
Asset retirement obligations	354	344
	<u>\$ 7,549</u>	<u>\$ 69,828</u>

10 Bank indebtedness and long-term debt

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

a) Long-term debt

	December 1, 2019	March 3, 2019
Term loan	\$ 75,000	\$ 75,000
Less: Deferred financing fees	(289)	(376)
Long-term debt	<u>\$ 74,711</u>	<u>\$ 74,624</u>

The term loan matures on May 22, 2022 and has no scheduled principal repayments prior to maturity. Interest is paid on a monthly basis. Under the Credit Facilities, the Company has the option to borrow using the 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%).

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

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

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%). As at December 1, 2019 and March 3, 2019, there were no open letters of credit against the revolving credit facility. Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan.

As at December 1, 2019 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 \$46.0 million (March 3, 2019 - \$31.9 million) by certain open letters of credit (note 17(b)).

The 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. As at December 1, 2019 and March 3, 2019, the Company was in compliance with all financial covenants.

11 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 13-week and 39-week periods ended December 1, 2019, the Company repurchased 32,600 subordinate voting shares for cancellation at an average price of \$15.97 (for the 13-week and 39-week periods ended November 25, 2018 the Company repurchased 304,180 and 549,880 subordinate voting shares, respectively, for cancellation at an average price of \$18.35 and \$17.07, respectively, per

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

subordinate voting share under the normal course issuer bid program effective during the 39-week period ended November 25, 2018).

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 December 1, 2019, no such liability was recorded.

As at December 1, 2019, there were 24,537,349 multiple voting shares and 84,437,094 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at December 1, 2019. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

12 Stock options

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

Legacy Plan

Following completion of the Company's initial public offering, no additional options will be granted under the Legacy Plan.

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

	39-week periods ended			
	December 1, 2019		November 25, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	5,081,717	\$ 4.64	7,748,370	\$ 4.09
Exercised	(1,021,312)	3.58	(2,150,384)	2.59
Forfeited	(130,746)	7.09	(266,938)	5.79
Outstanding, at end of period	3,929,659	\$ 4.83	5,331,048	\$ 4.61

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

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 1, 2019

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

the 13-week and 39-week periods ended November 25, 2018 - \$0.6 million and \$1.9 million, respectively). Stock-based compensation recovery for the 13-week period ended December 1, 2019 included a reversal in previously recognized stock-based compensation expense related to the forfeiture of unvested options from departed employees.

Option Plan

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

	39-week periods ended			
	December 1, 2019		November 25, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	4,767,727	\$ 14.81	4,947,348	\$ 14.80
Granted	346,588	17.91	226,862	15.65
Exercised	(377,933)	14.65	(102,576)	15.72
Forfeited	(539,050)	14.25	(370,592)	15.50
Outstanding, at end of period	4,197,332	\$ 15.15	4,701,042	\$ 14.77

The weighted average fair value of the time-based stock options granted during the 39-week period ended December 1, 2019 was estimated at the date of grant based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	35.0% to 37.0%
Risk-free interest rate	1.5% to 1.6%
Expected life	6.0 years
Exercise price	\$17.59 to \$18.73

Stock-based compensation expense in relation to the options under the Option Plan for the 13-week and 39-week periods ended December 1, 2019 was \$0.8 million and \$3.4 million, respectively (for the 13-week and 39-week periods ended November 25, 2018 - \$2.1 million and \$6.5 million, respectively).

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 1, 2019

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

Director Deferred Share Unit ("DSU") Program

Each eligible director receives a portion of his or her annual director retainer in DSUs. DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. The Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was \$1.9 million at December 1, 2019 (November 25, 2018 - \$1.1 million), with an expense of \$0.4 million and \$0.8 million for the 13-week and 39-week periods ended December 1, 2019, respectively (for 13-week and 39-week periods ended November 25, 2018 - \$0.2 million and \$0.5 million, respectively), recorded as stock-based compensation expense.

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

	39-week periods ended	
	December 1, 2019	November 25, 2018
	Number of DSUs	Number of DSUs
Outstanding, at beginning of period	65,191	40,220
Granted	32,920	18,113
Outstanding, at end of period	98,111	58,333

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 \$0.4 million as at December 1, 2019, with an expense of \$0.2 million and \$0.4 million for the 13-week and 39-week periods ended December 1, 2019, respectively, recorded as stock-based compensation expense.

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 1, 2019

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

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

	<u>39-week periods ended</u>	
	<u>December 1, 2019</u>	<u>November 25, 2018</u>
	Number of RSUs	Number of RSUs
Outstanding, at beginning of period	38,099	-
Granted	101,915	-
Forfeited	(8,233)	-
	<u>131,781</u>	<u>-</u>
Outstanding, at end of period	<u>131,781</u>	<u>-</u>

During the 13-week period ended December 1, 2019, the Company entered into equity swap 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 13-week and 39-week periods ended December 1, 2019, respectively, the Company recorded a nominal amount for the unrealized change in fair value for these contracts in the condensed interim consolidated statements of operations.

13 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.

	<u>13-week periods ended</u>		<u>39-week periods ended</u>	
	<u>December 1, 2019</u>	<u>November 25, 2018</u>	<u>December 1, 2019</u>	<u>November 25, 2018</u>
Net income attributable to shareholders of the Company	\$ 34,803	\$ 32,600	\$ 68,879	\$ 60,005
Weighted average number of shares outstanding during the period (thousands)	<u>108,515</u>	<u>113,293</u>	<u>108,148</u>	<u>112,714</u>
Basic net income per share	<u>\$ 0.32</u>	<u>\$ 0.29</u>	<u>\$ 0.64</u>	<u>\$ 0.53</u>

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

b) Diluted

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

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Net income attributable to shareholders of the Company \$	34,803	\$ 32,600	\$ 68,879	\$ 60,005
Weighted average number of shares for net income per diluted share (thousands)	111,898	117,681	111,742	117,328
Net income per diluted share	\$ 0.31	\$ 0.28	\$ 0.62	\$ 0.51

14 Expenses by nature

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Cost of goods sold				
Inventory and product-related costs and occupancy costs	\$ 126,425	\$ 132,827	\$ 341,587	\$ 350,522
Depreciation expense (notes 3 and 7)	21,262	5,260	62,989	15,658
	\$ 147,687	\$ 138,087	\$ 404,576	\$ 366,180

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Personnel expenses				
Salaries, wages and employee benefits ¹	\$ 47,968	\$ 45,446	\$ 136,831	\$ 127,645
Stock-based compensation expense (note 12)	1,063	2,896	5,379	8,944
	\$ 49,031	\$ 48,342	\$ 142,210	\$ 136,589

1. Salaries, wages and employee benefits for the 13-week and 39-week periods ended November 25, 2018 include \$1.0 million and \$3.3 million, respectively, of consultants and contractors related costs. For the 13-week and 39-week periods ended December 1, 2019, consultants and contractors related costs have been excluded from salaries, wages and employee benefits.

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 1, 2019

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

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Finance expense				
Interest expense on lease liabilities (notes 3 and 7)	\$ 5,925	\$ -	\$ 17,897	\$ -
Interest expense and banking fees	1,043	1,048	3,349	3,470
Amortization of deferred financing fees	53	53	159	132
	<u>\$ 7,021</u>	<u>\$ 1,101</u>	<u>\$ 21,405</u>	<u>\$ 3,602</u>

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Other income				
Realized foreign exchange gain	\$ (334)	\$ (948)	\$ (1,111)	\$ (2,788)
Unrealized foreign exchange loss (gain)	334	(141)	879	(1,368)
Interest and other income	(216)	(314)	(599)	(1,078)
	<u>\$ (216)</u>	<u>\$ (1,403)</u>	<u>\$ (831)</u>	<u>\$ (5,234)</u>

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 forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week and 39-week periods ended December 1, 2019 is 26.8% (for the 13-week and 39-week periods ended November 25, 2018 - 26.9%). The Company's effective income tax rate for the 13-week and 39-week periods ended December 1, 2019 is 27.0% and 28.0%, respectively (for the 13-week and 39-week periods ended November 25, 2018 - 28.6% and 29.7%, respectively).

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 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 clients:

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Canada	\$ 175,166	\$ 170,663	\$ 462,670	\$ 426,761
United States	92,116	72,213	242,489	188,485
	<u>\$ 267,282</u>	<u>\$ 242,876</u>	<u>\$ 705,159</u>	<u>\$ 615,246</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:

	December 1, 2019	March 3, 2019
Canada	\$ 477,343	\$ 316,344
United States	290,638	67,358
	<u>\$ 767,981</u>	<u>\$ 383,702</u>

17 Commitments and contingencies

a) Purchase obligations

At December 1, 2019, the Company had purchase obligations of \$36.8 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 December 1, 2019, the Company had open letters of credit of \$29.0 million (March 3, 2019 - \$43.1 million).

18 Related party transactions

Prior to the Company's 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, 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.

Aritzia Inc.
Notes to Condensed Interim Consolidated Financial Statements
December 1, 2019

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

The Company entered into the following transactions with related parties:

- a) During the 13-week and 39-week periods ended December 1, 2019, the Company made payments of \$0.9 million and \$2.9 million, respectively (13-week and 39-week periods ended November 25, 2018 - \$1.0 million and \$3.1 million, respectively) for a lease of premises and \$243 and \$573, respectively (13-week and 39-week periods ended November 25, 2018 - \$203 and \$660, respectively) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. At December 1, 2019, \$264 was included in accounts payable and accrued liabilities (March 3, 2019 - \$71) and \$7 was included in prepaid expenses and other current assets (March 3, 2019 - \$52).
- b) Total reimbursements to Berkshire for travel, lodging and other costs for the 13-week and 39-week periods ended November 25, 2018 were \$20 and \$49, respectively. 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:

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Salaries, directors' fees and short-term benefits	\$ 1,144	\$ 875	\$ 3,179	\$ 2,498
Stock-based compensation expense	816	1,021	2,192	3,050
	<u>\$ 1,960</u>	<u>\$ 1,896</u>	<u>\$ 5,371</u>	<u>\$ 5,548</u>

Aritzia Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 1, 2019

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

19 Supplemental cash flow information

	13-week periods ended		39-week periods ended	
	December 1, 2019	November 25, 2018	December 1, 2019	November 25, 2018
Net change in non-cash working capital balances				
Accounts receivable	\$ (1,105)	\$ 148	\$ 345	\$ 563
Prepaid expenses and other current assets	(74)	(1,721)	(1,446)	(2,599)
Inventory	13,527	5,940	(10,645)	(28,756)
Other assets	(1,919)	(228)	(2,362)	(146)
Accounts payable and accrued liabilities	19,847	8,428	23,805	13,075
Deferred revenue	11,758	15,376	12,735	14,877
	<u>\$ 42,034</u>	<u>\$ 27,943</u>	<u>\$ 22,432</u>	<u>\$ (2,986)</u>
Supplemental cash flow information				
Accrued purchases of property and equipment			\$ 7,564	\$ 3,446
Accrued purchases of intangible assets			234	99
Accrued NCIB share repurchases			-	838