

ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Second Quarter of Fiscal 2019

For the 13-week and 26-week periods ended
August 26, 2018 and August 27, 2017

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at August 26, 2018 and February 25, 2018

(Unaudited, in thousands of Canadian dollars)

	Note	August 26, 2018	February 25, 2018 (Restated - note 3)
Assets			
Current assets			
Cash and cash equivalents		\$ 54,995	\$ 112,475
Accounts receivable		4,258	2,413
Income taxes recoverable		800	1,728
Inventory	5	112,059	78,833
Prepaid expenses and other current assets		17,074	16,005
Total current assets		189,186	211,454
Property and equipment	6	156,494	135,672
Intangible assets	6	64,405	61,387
Goodwill		151,682	151,682
Other assets		1,966	1,664
Deferred tax assets		7,327	6,517
Total assets		\$ 571,060	\$ 568,376
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 74,075	\$ 67,292
Income taxes payable		73	-
Current portion of long-term debt	9	-	19,127
Deferred revenue		19,023	19,308
Total current liabilities		93,171	105,727
Other non-current liabilities	8	66,221	59,566
Deferred tax liabilities		18,945	17,922
Long-term debt	9	74,567	99,460
Total liabilities		252,904	282,675
Shareholders' equity			
Share capital	11	180,853	171,130
Contributed surplus		74,890	76,522
Retained earnings		62,833	38,613
Accumulated other comprehensive loss		(420)	(564)
Total shareholders' equity		318,156	285,701
Total liabilities and shareholders' equity		\$ 571,060	\$ 568,376

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 26-week periods ended August 26, 2018 and August 27, 2017

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

	Note	13-week periods ended		26-week periods ended	
		August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Net revenue	3, 16	\$ 205,359	\$ 173,968	\$ 372,370	\$ 319,014
Cost of goods sold	14	128,625	110,838	228,093	198,346
Gross profit		76,734	63,130	144,277	120,668
Operating expenses					
Selling, general and administrative		52,824	44,572	99,817	85,415
Stock-based compensation expense	12,14	2,229	3,044	6,048	7,711
Income from operations		21,681	15,514	38,412	27,542
Finance expense	14	1,110	1,382	2,501	2,648
Other (income) expenses	10	(876)	6,420	(3,831)	4,194
Income before income taxes		21,447	7,712	39,742	20,700
Income tax expense	15	6,332	2,722	12,337	7,581
Net income		\$ 15,115	\$ 4,990	\$ 27,405	\$ 13,119
Net income per share					
Basic	13	\$ 0.13	\$ 0.05	\$ 0.24	\$ 0.12
Diluted	13	0.13	0.04	0.23	0.11
Weighted average number of shares outstanding (thousands)					
Basic	13	112,730	109,594	112,427	109,238
Diluted	13	117,410	116,244	117,140	116,248

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 26-week periods ended August 26, 2018 and August 27, 2017

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Net income	\$ 15,115	\$ 4,990	\$ 27,405	\$ 13,119
Other comprehensive income (loss) Items that are or may be reclassified subsequently to net income:				
Foreign currency translation adjustment	25	(369)	144	(259)
Comprehensive income	<u>\$ 15,140</u>	<u>\$ 4,621</u>	<u>\$ 27,549</u>	<u>\$ 12,860</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 26-week periods ended August 26, 2018 and August 27, 2017

(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 26, 2017	55,756,002	\$ 40,305	53,016,459	\$ 91,548	\$ 88,612	\$ (18,480)	\$ (377)	201,608
Net income	-	-	-	-	-	13,119	-	13,119
Options exercised (note 12)	-	-	1,427,038	15,306	(11,751)	-	-	3,555
Stock-based compensation expense (note 12)	-	-	-	-	7,576	-	-	7,576
Foreign currency translation adjustment	-	-	-	-	-	-	(259)	(259)
Balance, August 27, 2017	55,756,002	\$ 40,305	54,443,497	\$ 106,854	\$ 84,437	\$ (5,361)	\$ (636)	225,599
Balance, February 25, 2018	55,756,002	\$ 40,305	56,275,341	\$ 130,825	\$ 76,522	\$ 38,613	\$ (564)	285,701
Net income	-	-	-	-	-	27,405	-	27,405
Options exercised (note 12)	-	-	1,007,368	10,291	(7,338)	-	-	2,953
Stock-based compensation expense (note 12)	-	-	-	-	5,706	-	-	5,706
Normal course issuer bid purchase of subordinate voting shares (note 11)	-	-	(245,700)	(568)	-	(3,185)	-	(3,753)
Share exchange at Secondary Offering (note 1)	(5,880,000)	(4,251)	5,880,000	4,251	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	144	144
Balance, August 26, 2018	49,876,002	\$ 36,054	62,917,009	\$ 144,799	\$ 74,890	\$ 62,833	\$ (420)	318,156

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 26-week periods ended August 26, 2018 and August 27, 2017

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		26-week periods ended	
		August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Operating activities					
Net income for the period		\$ 15,115	\$ 4,990	\$ 27,405	\$ 13,119
Adjustments for:					
Depreciation and amortization	14	6,821	5,379	12,852	10,854
Finance expense	14	1,110	1,382	2,501	2,648
Stock-based compensation expense	12	2,229	3,044	6,048	7,711
Amortization of deferred rent		828	2,808	1,453	4,916
Amortization of deferred lease inducements		(1,004)	(688)	(1,961)	(1,422)
Unrealized foreign exchange loss (gain) on forward contracts	10	1,002	3,183	(182)	2,379
Other		(197)	-	(197)	(199)
Income tax expense	15	6,332	2,722	12,337	7,581
Proceeds from deferred lease inducements		3,794	1,297	6,190	2,504
Cash generated before non-cash working capital balances and interest and income taxes		36,030	24,117	66,446	50,091
Net change in non-cash working capital balances	19	(30,225)	(6,559)	(30,929)	(11,106)
Cash generated before interest and income taxes		5,805	17,558	35,517	38,985
Interest paid		(1,813)	(1,369)	(2,496)	(2,562)
Income taxes paid		(7,047)	(7,223)	(10,921)	(33,902)
Net cash (used in) generated from operating activities		(3,055)	8,966	22,100	3,331
Financing activities					
Repayment of lease obligations		(127)	(111)	(244)	(652)
Repayment of long-term debt	9	(43,738)	-	(43,738)	-
Payment of financing fees	9	(667)	-	(667)	-
Proceeds from options exercised	12	2,490	2,691	2,953	3,555
Subordinate voting shares repurchased for cancellation	11	(3,098)	-	(3,809)	-
Net cash (used in) generated from financing activities		(45,140)	2,580	(45,505)	2,903
Investing activities					
Purchase of property and equipment	6	(17,529)	(11,550)	(30,547)	(26,975)
Purchase of intangible assets	6	(1,589)	(1,418)	(3,713)	(2,443)
Net cash used in investing activities		(19,118)	(12,968)	(34,260)	(29,418)
Effect of exchange rate changes on cash and cash equivalents		26	(263)	185	(181)
Decrease in cash and cash equivalents		(67,287)	(1,685)	(57,480)	(23,365)
Cash and cash equivalents - Beginning of period		122,282	57,847	112,475	79,527
Cash and cash equivalents - End of period		\$ 54,995	\$ 56,162	\$ 54,995	\$ 56,162
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

August 26, 2018

(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 August 26, 2018, the Company had 90 retail stores (August 27, 2017 - 83 retail stores).

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 ("Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders. The 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 Secondary Offering. As part of the Secondary Offering, certain selling shareholders exchanged 5,880,000 of their multiple voting shares for subordinate voting shares. Underwriting fees were paid by the selling shareholders, and other expenses related to the Secondary Offering of approximately \$0.4 million are being paid by the Company.

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

Basis of presentation

These unaudited condensed interim consolidated financial statements ("interim financial statements") have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements, with the exception of IFRS 9, "Financial Instruments: Classification and Measurement and Impairment" and IFRS 15, "Revenue from Contracts with Customers", as described 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 February 25, 2018 ("Fiscal 2018").

These interim financial statements were authorized for issue by the Company's Board of Directors on October 3, 2018.

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

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 2 of the Fiscal 2018 audited consolidated financial statements, with the exception of the accounting standards adopted in the year ending March 3, 2019 ("Fiscal 2019"). Changes to significant accounting policies are described below.

3 Significant new accounting standards

Standards recently adopted

IFRS 15 - Revenue from Contracts with Customers

Effective February 26, 2018, the Company adopted IFRS 15 issued in May 2014, and amended in September 2015 and April 2016. IFRS 15 outlines a single comprehensive five-step framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard using the full retrospective approach. The adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements other than on the Company's recognition of its sales return allowance. Under IAS 18, "Revenue", the sales return allowance on the consolidated Statement of Financial Position was recognized on a net basis, with no adjustment to other current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the Statement of Financial Position line items noted below. As the impact is limited to these two financial statement line items, a February 25, 2018 opening Statement of Financial Position has not been presented.

Under IFRS 15, the Company recognizes revenue when control of the goods or services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

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

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control has been transferred to the customer, and measured at the fair value of the consideration received, net of discounts and an estimated allowance for returns.

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

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

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

The financial impact of the adoption of IFRS 15 is as follows:

	As at February 25, 2018			As at February 26, 2017		
	As previously reported	IFRS-15 adjustments	As restated	As previously reported	IFRS-15 adjustments	As restated
Prepaid expenses and other current assets	15,307	698	16,005	12,743	696	13,439
Accounts payable and accrued liabilities ⁽¹⁾	66,594	698	67,292	51,250	696	51,946

⁽¹⁾ Includes current portion of lease obligation

IFRS 9 - Financial Instruments: Classification and Measurement and Impairment

Effective February 26, 2018, the Company adopted (i) IFRS 9, issued in July 2014, which replaces IAS 39, "Financial Instruments: Recognition and Measurement", and (ii) related amendments to IFRS 7, "Financial Instruments: Disclosures". The new standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company applied the requirements of the new standard retrospectively.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. Financial assets are classified and measured based on three categories: amortized cost; fair value through other comprehensive income; or fair value through profit or loss. Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit or loss.

The Company's financial assets classified as loans and receivables under IAS 39 are now classified as amortized cost under IFRS 9. The Company's financial liabilities classified as other financial liabilities under IAS 39 are now classified as amortized cost under IFRS 9. The Company's foreign currency forward contracts continue to be classified as fair value through profit or loss ("FVTPL").

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

The adoption of IFRS 9 did not result in a material change in measurement or the carrying amount of financial assets and liabilities of the Company.

Financial assets are subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as FVTPL: (i) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss model ("ECL"). This new model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company's accounts receivable balance is primarily comprised of landlord lease inducement receivables. The Company has determined the adoption of IFRS 9 has resulted in no additional recorded impairment allowance for the 13-week and 26-week periods ended August 26, 2018.

Amendments to IFRS 2 - Share-based Payment

Effective February 26, 2018, the Company adopted amendments to IFRS 2, issued in June 2016, which clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) 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. The adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

Standards issued but not yet adopted

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17, "Leases". 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.

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

While the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements, adoption of IFRS 16 is expected to significantly increase the assets and liabilities on the consolidated statement of financial position as the majority of leases disclosed in note 17(a) to these interim financial statements are in scope for IFRS 16. The Company will apply the new standard for fiscal 2020.

Annual Improvements

In December 2017, the IASB issued amendments to IAS 12, "Income Taxes" and IAS 23, "Borrowing Costs" to clarify existing requirements. These clarification amendments will be effective for annual periods beginning on or after January 1, 2019. The implementation of these clarification amendments is not expected to have a material impact on the Company's consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of interim 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 and described in note 3 above, as well as note 4 of the Fiscal 2018 audited consolidated financial statements.

5 Inventory

	August 26, 2018	February 25, 2018
Finished goods	\$ 90,256	\$ 60,385
Finished goods in transit	21,803	18,448
	<u>\$ 112,059</u>	<u>\$ 78,833</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 \$0.8 million and \$1.2 million for the 13-week and 26-week periods ended August 26, 2018, respectively (for the 13-week and 26-week periods August 27, 2017 - \$0.3 million and \$0.7 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 9).

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Notes to Condensed Interim Consolidated Financial Statements

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

6 Property and equipment and intangible assets

During the 13-week and 26-week periods ended August 26, 2018, the Company had property and equipment additions of \$16.2 million and \$30.9 million, respectively (during 13-week and 26-week periods ended August 27, 2017 - \$13.7 million and \$27.6 million, respectively), the majority of which were related to leasehold improvements made to its new or repositioned retail stores and distribution centre and the purchase of furniture and equipment for such stores and distribution centre. During the same periods, the Company also had intangible asset additions of \$1.6 million and \$4.0 million, respectively (during 13-week and 26-week periods ended August 27, 2017 - \$0.8 million and \$2.1 million, respectively), the majority of which were related to internally developed computer software.

7 Accounts payable and accrued liabilities

	August 26, 2018	February 25, 2018 (restated - note 3)
Trade accounts payable	\$ 45,680	\$ 44,141
Other non-trade payables	14,054	7,108
Employee benefits payable	14,341	16,043
	<hr/>	<hr/>
	\$ 74,075	\$ 67,292
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8 Other non-current liabilities

	August 26, 2018	February 25, 2018
Deferred lease liability	\$ 37,930	\$ 37,529
Deferred lease inducements	26,691	20,617
Asset retirement obligations	753	916
Director Deferred Share Unit Program liability (note 12)	847	504
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	\$ 66,221	\$ 59,566
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(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

9 Bank indebtedness and long-term debt

The Company has a term loan and revolving credit facility with its syndicate of lenders.

a) Long-term debt

	August 26, 2018	February 25, 2018
Term loan	\$ 75,000	\$ 118,738
Less: Deferred financing fees	(433)	(151)
Term loan, net of deferred financing fees	74,567	118,587
Less: Current portion	-	(19,127)
Long-term debt	\$ 74,567	\$ 99,460

On June 28, 2018, the Company amended its term loan and revolving credit facility (collectively the "Credit Facilities") with its syndicate of lenders. The amendment agreement included a reduction of the term loan from \$118.7 million to \$75.0 million and an increase of the revolving credit facility from \$70.0 million to \$100.0 million. The amended Credit Facilities mature on May 22, 2022 and have no scheduled principal payments prior to maturity. Interest is paid on a monthly basis. Under the amended Credit Facilities, the Company has the option to borrow using Banker's Acceptance borrowings ("BA"), LIBO rate borrowings ("LIBO"), or Canadian prime rate borrowings ("Prime") plus a marginal interest rate between 0.50% and 2.50% (February 25, 2018 - 0.75% and 3.00%). As part of the amendment, the Company made a \$43.7 million term loan repayment on June 27, 2018. As part of the amendment, the Company incurred \$0.7 million of financing fees which have been deferred and are being amortized over the term of the Credit Facilities.

b) Bank indebtedness

The Company has a revolving credit facility of \$100.0 million (February 25, 2018 - \$70.0 million). The revolving credit facility bears interest at BA, LIBO or Prime plus a marginal rate between 0.50% and 2.50% (February 25, 2018 - 0.75% and 3.00%). The amount available under the revolving credit facility is reduced by certain open letters of credit (note 17(c)) to \$83.7 million (February 25, 2018 - \$54.1 million). Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan.

At August 26, 2018 and February 25, 2018, no advances were made under this revolving credit facility.

During the year ended February 25, 2018, the Company entered into \$75.0 million trade finance agreements for letters of credit, 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 by certain open letters of credit (note 17(c)) to \$52.2 million (February 25, 2018 - \$70.0 million).

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

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. At August 26, 2018 and February 25, 2018, 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 relate to the change in fair value of foreign currency forward contracts during the 13-week and 26-week periods ended August 26, 2018, which were a loss of \$1.0 million and a gain of \$0.2 million, respectively (13-week and 26-week periods ended August 27, 2017 - losses of \$3.2 million and \$2.4 million, respectively). During the 13-week and 26-week periods ended August 26, 2018, the Company also realized a gain of \$1.5 million and \$1.5 million, respectively (for the 13-week and 26-week periods ended August 27, 2017 - a loss of \$1.1 million and \$0.7 million, respectively), arising from the settlement of foreign currency forward contracts.

The forward contracts generally have a term of no more than 12 months. The notional amount of these contracts outstanding at August 26, 2018 was \$10.0 million U.S. dollars at an average forward rate of 1.2421 (February 25, 2018 - \$30.3 million U.S. dollars at an average forward rate of 1.2494). The forward contracts had a positive fair value of \$0.6 million as at August 26, 2018 (February 25, 2018 - positive fair value of \$0.4 million).

11 Share capital

On May 10, 2018, the Company announced the commencement of a normal course issuer bid ("NCIB") to purchase and cancel up to 5,429,658 subordinate voting shares over the 12-month period commencing May 15, 2018 and ending May 14, 2019. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. As purchases are made, the Company reduces share capital for the average book value of the subordinate shares repurchased, and charges retained earnings for the difference between the price paid and the average book value. During the 13-week and 26-week periods ended August 26, 2018, the Company repurchased a total of 193,600 and 245,700 subordinate voting shares, respectively, for cancellation at an average price of \$15.99 and \$15.49, respectively, per subordinate voting share.

On May 31, 2018, the Company entered into an automated share purchase plan ("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. The Company records a liability for purchases that are estimated to occur during

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blackout periods based on the parameters of the NCIB and ASPP. At August 26, 2018, no such liability has been recorded.

As at August 26, 2018, there were 49,876,002 multiple voting shares and 62,917,009 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at August 26, 2018.

12 Stock options

Concurrent with its initial public offering ("IPO") in October 2016, the Company amended and restated its Equity Incentive Plan (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, the Company adopted a Director Deferred Share Unit Program for non-employee board members.

Legacy Plan

Options to acquire subordinate voting shares under the Legacy Plan may be granted to directors, employees, consultants and advisors of the Company. The options vest annually pro rata on the anniversary of the grant date over a period of five years. All issued options expire after 10 to 15 years from the date granted. Following completion of the IPO, no additional options will be granted under the Legacy Plan.

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

	For the 26-week periods ended			
	August 26, 2018		August 27, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	7,748,370	\$ 4.09	11,288,672	\$ 3.82
Exercised	(1,002,124)	2.87	(1,427,038)	2.49
Forfeited	(201,565)	5.36	(256,726)	3.92
Outstanding, at end of period	6,544,681	\$ 4.24	9,604,908	\$ 4.01

Stock-based compensation expense in relation to the options under the Legacy Plan for the 13-week and 26-week periods ended August 26, 2018 was \$0.2 million and \$1.3 million, respectively (for the 13-week and 26-week periods ended August 27, 2017 - \$0.6 million and \$2.9 million, respectively).

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2016 Option Plan

Options to acquire subordinate voting shares under the 2016 Option Plan may be granted to directors, executive officers, employees and consultants of the Company. The options vest annually pro rata on the anniversary of the grant date over a period of five years. All issued options expire after seven years from the date granted.

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

	For the 26-week periods ended			
	August 26, 2018		August 27, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	4,947,348	\$ 14.80	3,263,759	\$ 16.12
Granted	183,727	15.06	810,233	14.13
Exercised	(5,244)	15.29	-	-
Forfeited	(273,061)	15.75	(149,073)	16.15
Outstanding, at end of period	4,852,770	\$ 14.76	3,924,919	\$ 15.71

The weighted average fair value of the time-based stock options granted during the 26-week period ended August 26, 2018 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	40.0% to 41.0%
Risk-free interest rate	2.1% to 2.3%
Expected life	6.0 years
Exercise price	\$12.99 to \$16.08

Stock-based compensation expense in relation to the options under the 2016 Option Plan for the 13-week and 26-week periods ended August 26, 2018 was \$1.8 million and \$4.4 million, respectively (for the 13-week and 26-week periods ended August 27, 2017 - \$2.3 million and \$4.6 million, respectively).

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Director Deferred Share Unit Program

Each eligible director receives a portion of his or her annual director retainer in deferred share units ("DSUs"). DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. DSUs are granted quarterly and the Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was \$0.8 million at August 26, 2018, with an expense of \$0.2 million and \$0.3 million for the 13-week and 26-week periods ended August 26, 2018, respectively (for 13-week and 26-week periods ended August 27, 2017 - \$0.1 million and \$0.2 million, respectively), recorded as stock-based compensation expense.

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.

	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Net income attributable to shareholders of the Company	\$ 15,115	\$ 4,990	\$ 27,405	\$ 13,119
Weighted average number of shares outstanding during the period (<i>thousands</i>)	112,730	109,594	112,427	109,238
Basic net income per share	\$ 0.13	\$ 0.05	\$ 0.24	\$ 0.12

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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		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Net income attributable to shareholders of the Company	\$ 15,115	\$ 4,990	\$ 27,405	\$ 13,119
Weighted average number of shares for net income per diluted share (<i>thousands</i>)	117,410	116,244	117,140	116,248
Net income per diluted share	\$ 0.13	\$ 0.04	\$ 0.23	\$ 0.11

14 Expenses by nature

	Cost of goods sold			
	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Inventory and product-related costs and occupancy costs	\$ 123,088	\$ 106,517	\$ 217,695	\$ 189,716
Depreciation expense	5,537	4,321	10,398	8,630
	\$ 128,625	\$ 110,838	\$ 228,093	\$ 198,346

	Personnel expenses			
	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Salaries, wages and employee benefits	\$ 44,078	\$ 37,698	\$ 82,199	\$ 73,216
Stock-based compensation expense	2,229	3,044	6,048	7,711
	\$ 46,307	\$ 40,742	\$ 88,247	\$ 80,927

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	Finance expense			
	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Interest expense and banking fees	\$ 1,073	\$ 1,334	\$ 2,422	\$ 2,552
Amortization of deferred financing fees	37	48	79	96
	<u>\$ 1,110</u>	<u>\$ 1,382</u>	<u>\$ 2,501</u>	<u>\$ 2,648</u>

15 Income taxes

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 26-week periods ended August 26, 2018 is 26.9% (for the 13-week and 26-week periods ended August 27, 2017 - 26.4%). The Company's effective income tax rate for the 13-week and 26-week periods ended August 26, 2018 is 29.5% and 31.0%, respectively (for the 13-week and 26-week periods ended August 27, 2017 - 35.3% and 36.6%, 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 customers, including sales through the Company's retail stores and eCommerce website.

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

	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Canada	\$ 143,716	\$ 129,967	\$ 256,098	\$ 229,660
United States	61,643	44,001	116,272	89,354
	<u>\$ 205,359</u>	<u>\$ 173,968</u>	<u>\$ 372,370</u>	<u>\$ 319,014</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:

	August 26, 2018	February 25, 2018
Canada	\$ 308,287	\$ 291,270
United States	64,294	57,471
	<u>\$ 372,581</u>	<u>\$ 348,741</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	\$ 83,517
Between 1 and 5 years	334,875
More than 5 years	<u>250,088</u>
Total	<u>\$ 668,480</u>

b) Purchase obligations

At August 26, 2018, the Company had purchase obligations of \$34.4 million (February 25, 2018 - \$24.2 million), which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

c) Letters of credit

At August 26, 2018, the Company had open letters of credit of \$39.1 million (February 25, 2018 - \$20.9 million).

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18 Related party transactions

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 interest in the Company.

Total net reimbursements to Berkshire for travel, lodging and other costs for the 13-week and 26-week periods ended August 26, 2018 were \$16 and \$29, respectively (13-week and 26-week periods ended August 27, 2017 - \$13 and \$34, respectively). At August 26, 2018, \$nil was included in accounts payable and accrued liabilities (February 25, 2018 - \$66).

In connection with its IPO, 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 August 26, 2018, \$671 was included in accounts payable and accrued liabilities (February 25, 2018 - \$652).

- b) During the 13-week and 26-week periods ended August 26, 2018, the Company paid \$1.0 million and \$2.1 million, respectively (13-week and 26-week periods ended August 27, 2017 - \$945 and \$1.7 million, respectively), for rent of premises and \$234 and \$457, respectively (13-week and 26-week periods ended August 27, 2017 - \$nil), for the use of a leased asset wholly or partially owned by companies that are owned by a director and officer of the Company. At August 26, 2018, \$14 was included in accounts payable and accrued liabilities (February 25, 2018 - \$100).
- c) During the 13-week and 26-week periods ended August 27, 2017, the Company purchased \$4.3 million and \$8.2 million, respectively, of merchandise from a company partially owned by private equity funds managed by Berkshire. In August 2017, Berkshire exited its investment from the merchandise company; as such, purchases from the merchandise company subsequent to August 2017 are not considered related party transactions.
- d) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017	August 26, 2018	August 27, 2017
Salaries, directors' fees and short-term benefits	\$ 865	\$ 763	\$ 1,623	\$ 1,526
Stock-based compensation expense (note 12)	1,018	1,378	2,029	2,890
	<u>\$ 1,883</u>	<u>\$ 2,141</u>	<u>\$ 3,652</u>	<u>\$ 4,416</u>

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19 Supplemental cash flow information

	13-week periods ended		26-week periods ended	
	August 26, 2018	August 27, 2017 (restated - note 3)	August 26, 2018	August 27, 2017 (restated - note 3)
Net change in non-cash working capital balances				
Accounts receivable	\$ 229	\$ 753	\$ 415	\$ 544
Prepaid expenses and other current assets	(1,246)	(1,844)	(878)	(705)
Inventory	(38,503)	(24,024)	(34,696)	(23,724)
Other assets	124	-	82	96
Accounts payable and accrued liabilities	9,986	18,690	4,647	13,219
Deferred revenue	(815)	(134)	(499)	(536)
	<u>\$ (30,225)</u>	<u>\$ (6,559)</u>	<u>\$ (30,929)</u>	<u>\$ (11,106)</u>
Supplemental cash flow information				
Accrued purchases of property and equipment			\$ 7,062	\$ 6,484
Accrued purchases of intangible assets			542	402