

# ARITZIA

**Aritzia Inc.**

Consolidated Financial Statements  
**March 3, 2019 and February 25, 2018**  
(in thousands of Canadian dollars)



## *Independent auditor's report*

To the Shareholders of Aritzia Inc.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Aritzia Inc. and its subsidiaries (together, the Company) as at March 3, 2019 and February 25, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 3, 2019 and February 25, 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

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

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

#### **Independence**

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

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



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### *Other information*

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

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

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

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

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

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

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

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



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

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

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

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



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

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

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

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
May 9, 2019

**Aritzia Inc.**  
**Consolidated Statements of Financial Position**  
As at March 3, 2019 and February 25, 2018

(in thousands of Canadian dollars)

	Note	March 3, 2019	February 25, 2018
			(Restated - note 2)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 100,897	\$ 112,475
Accounts receivable		4,355	2,413
Income taxes recoverable	16	-	1,728
Inventory	5	112,183	78,833
Prepaid expenses and other current assets		18,422	16,005
<b>Total current assets</b>		<b>235,857</b>	<b>211,454</b>
<b>Property and equipment</b>	6	<b>167,593</b>	<b>135,672</b>
<b>Intangible assets</b>	7	<b>64,427</b>	<b>61,387</b>
<b>Goodwill</b>	7	<b>151,682</b>	<b>151,682</b>
<b>Other assets</b>		<b>2,209</b>	<b>1,664</b>
<b>Deferred tax assets</b>	16	<b>7,606</b>	<b>6,517</b>
<b>Total assets</b>		<b>\$ 629,374</b>	<b>\$ 568,376</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	\$ 62,736	\$ 67,292
Income taxes payable	16	3,644	-
Current portion of long-term debt	10	-	19,127
Deferred revenue		24,231	19,308
<b>Total current liabilities</b>		<b>90,611</b>	<b>105,727</b>
<b>Other non-current liabilities</b>	9	<b>69,828</b>	<b>59,566</b>
<b>Deferred tax liabilities</b>	16	<b>20,002</b>	<b>17,922</b>
<b>Long-term debt</b>	10	<b>74,624</b>	<b>99,460</b>
<b>Total liabilities</b>		<b>255,065</b>	<b>282,675</b>
<b>Shareholders' equity</b>			
Share capital	12	199,517	171,130
Contributed surplus		65,806	76,522
Retained earnings		109,339	38,613
Accumulated other comprehensive loss		(353)	(564)
<b>Total shareholders' equity</b>		<b>374,309</b>	<b>285,701</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 629,374</b>	<b>\$ 568,376</b>

**Subsequent events (notes 1, 18 and 19)**  
**Commitments and contingencies (note 18)**

**Approved by the Board of Directors**

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Brian Hill Director

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Marnie Payne Director

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

**Aritzia Inc.**  
**Consolidated Statements of Operations**  
For the years ended March 3, 2019 and February 25, 2018

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

	Note	March 3, 2019	February 25, 2018
<b>Net revenue</b>	17	\$ 874,296	\$ 743,267
<b>Cost of goods sold</b>	15	<u>531,383</u>	<u>447,776</u>
<b>Gross profit</b>		342,913	295,491
<b>Operating expenses</b>			
Selling, general and administrative	15	215,297	183,857
Stock-based compensation expense	13, 15	<u>11,540</u>	<u>17,240</u>
<b>Income from operations</b>		116,076	94,394
Finance expense	15	4,821	5,221
Other (income) expenses	11, 15	<u>(395)</u>	<u>1,890</u>
<b>Income before income taxes</b>		111,650	87,283
Income tax expense	16	<u>32,922</u>	<u>30,190</u>
<b>Net income</b>		<u>\$ 78,728</u>	<u>\$ 57,093</u>
<b>Net income per share</b>			
Basic	14	\$ 0.70	\$ 0.52
Diluted	14	<u>0.67</u>	<u>0.49</u>
<b>Weighted average number of shares outstanding</b> (thousands)			
Basic	14	113,015	110,180
Diluted	14	<u>117,358</u>	<u>116,280</u>

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

**Aritzia Inc.**  
**Consolidated Statements of Comprehensive Income**  
For the years ended March 3, 2019 and February 25, 2018

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(in thousands of Canadian dollars)

	<b>March 3, 2019</b>	<b>February 25, 2018</b>
<b>Net income</b>	\$ 78,728	\$ 57,093
<b>Other comprehensive income (loss)</b> Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	211	(187)
<b>Comprehensive income</b>	<u>\$ 78,939</u>	<u>\$ 56,906</u>

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

# Aritzia Inc.

## Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 3, 2019 and February 25, 2018

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

	Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total shareholders' equity
	Shares	Amounts	Shares	Amounts				
<b>Balance, February 26, 2017</b>	55,756,002	\$ 40,305	53,016,459	\$ 91,548	\$ 88,612	\$ (18,480)	\$ (377)	201,608
Net income	-	-	-	-	-	57,093	-	57,093
Options exercised (note 13)	-	-	3,258,882	39,277	(29,002)	-	-	10,275
Stock-based compensation expense (note 13)	-	-	-	-	16,912	-	-	16,912
Foreign currency translation adjustment	-	-	-	-	-	-	(187)	(187)
<b>Balance, February 25, 2018</b>	<b>55,756,002</b>	<b>\$ 40,305</b>	<b>56,275,341</b>	<b>\$ 130,825</b>	<b>\$ 76,522</b>	<b>\$ 38,613</b>	<b>\$ (564)</b>	<b>285,701</b>
Net income	-	-	-	-	-	78,728	-	78,728
Options exercised (note 13)	-	-	2,459,988	29,721	(21,664)	-	-	8,057
Stock-based compensation expense (note 13)	-	-	-	-	10,948	-	-	10,948
Normal course issuer bid purchase of subordinate voting shares (note 12)	-	-	(549,880)	(1,334)	-	(8,002)	-	(9,336)
Share exchange at August 2018 Secondary Offering (note 1)	(5,880,000)	(4,251)	5,880,000	4,251	-	-	-	-
Share exchange prior to March 2019 Secondary Offering (note 1)	(5,344,234)	(3,863)	5,344,234	3,863	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	211	211
<b>Balance, March 3, 2019</b>	<b>44,531,768</b>	<b>\$ 32,191</b>	<b>69,409,683</b>	<b>\$ 167,326</b>	<b>\$ 65,806</b>	<b>\$ 109,339</b>	<b>\$ (353)</b>	<b>374,309</b>

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

# Aritzia Inc.

## Consolidated Statements of Cash Flows

For the years ended March 3, 2019 and February 25, 2018

(in thousands of Canadian dollars)

	Note	March 3, 2019	February 25, 2018
<b>Operating activities</b>			
Net income for the year		\$ 78,728	\$ 57,093
Adjustments for:			
Depreciation and amortization	6, 7	27,065	22,844
Finance expense	15	4,821	5,221
Stock-based compensation expense	13	11,540	17,240
Amortization of deferred rent and deferred lease inducements		(905)	4,947
Unrealized foreign exchange loss (gain) on forward contracts	11	415	(233)
Income tax expense	16	32,922	30,190
Proceeds from deferred lease inducements		12,148	7,077
Cash generated before non-cash working capital balances and interest and income taxes		166,734	144,379
Net change in non-cash working capital balances	20	(39,616)	13,013
Cash generated before interest and income taxes		127,118	157,392
Interest paid		(4,709)	(5,314)
Income taxes paid		(26,234)	(46,720)
Net cash generated from operating activities		96,175	105,358
<b>Financing activities</b>			
Repayment of lease obligations		(454)	(928)
Repayment of long-term debt	10	(43,738)	(15,321)
Payment of financing fees	10	(667)	-
Proceeds from options exercised	13	8,057	10,275
Subordinate voting shares repurchased for cancellation	12	(9,391)	-
Net cash used in financing activities		(46,193)	(5,974)
<b>Investing activities</b>			
Purchase of property and equipment	6	(56,425)	(61,061)
Purchase of intangible assets	7	(5,585)	(5,269)
Net cash used in investing activities		(62,010)	(66,330)
Effect of exchange rate changes on cash and cash equivalents		450	(106)
(Decrease) increase in cash and cash equivalents		(11,578)	32,948
Cash and cash equivalents - Beginning of year		112,475	79,527
Cash and cash equivalents - End of year		\$ 100,897	\$ 112,475
Supplemental cash flow information (note 20)			

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

(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 March 3, 2019, the Company had 91 boutiques (February 25, 2018 - 85 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. As part of the August 2018 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 August 2018 Secondary Offering of \$0.6 million are being paid by the Company.

Subsequent to the year ended March 3, 2019, 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 purchase 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 are being paid by the Company and are being 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.

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
March 3, 2019 and February 25, 2018

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(in thousands of Canadian dollars, unless otherwise noted)

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

**Basis of preparation**

The Company's fiscal year-end is the Sunday closest to the last day of February, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2019 was a 53-week year. Fiscal 2018 was a 52-week year. All references to 2019 and 2018 represent the fiscal years ended March 3, 2019 and February 25, 2018, respectively.

**Seasonality of operations**

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

**Statement of compliance**

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

These consolidated financial statements were authorized for issue by the Board of Directors on May 9, 2019.

**2 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

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
 March 3, 2019 and February 25, 2018

(in thousands of Canadian dollars, unless otherwise noted)

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.

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 <sup>(1)</sup>	66,594	698	67,292	51,250	696	51,946

<sup>(1)</sup> 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.

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

**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

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
March 3, 2019 and February 25, 2018

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(in thousands of Canadian dollars, unless otherwise noted)

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. Early adoption is permitted if IFRS 15 has been adopted.

The Company will apply the new standard for fiscal 2020 using the modified retrospective method. The modified retrospective method applies the requirements of IFRS 16 retrospectively with no restatement of the comparative period.

The new standard is expected to materially increase the assets and liabilities on the consolidated statement of financial position as the majority of the Company's operating leases disclosed in note 18(a) to these consolidated financial statements are in scope for IFRS 16. Based on the information as at March 3, 2019, as a result of the initial application of the standard, the Company estimates to recognize approximately \$460 million to \$510 million of lease liabilities and \$340 million to \$390 million of right-of-use assets on its consolidated statements of financial position. The difference, net of the deferred tax impact, will be recorded in opening retained earnings. The right-of-use assets will be depreciated on a straight-line basis over the remaining lease term. The lease liability will be carried at amortized cost with a finance charge recorded from the amortization of the lease liability discount. The depreciation expense of the right-of-use assets and the finance charge of the lease liability will partially replace 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 will continue to be expensed as incurred.

The new standard will not change the amount of cash transferred between the lessor and lessee, but will change the presentation of the operating and financing cash flows presented in the Company's consolidated statement of cash flows.

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

- i) recognition exemption of short term leases;
- ii) recognition exemption of low-value leases; and
- iii) grandfather prior conclusions on contracts containing leases.

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
March 3, 2019 and February 25, 2018

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(in thousands of Canadian dollars, unless otherwise noted)

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.

**3 Summary of significant accounting policies**

**Principles of consolidation**

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

**Functional and presentation currency**

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

**U.S. operations**

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

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

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

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and term deposits with an original maturity of less than three months. As at March 3, 2019, the Company had \$44.9 million in cash held in term deposits classified as cash equivalents (February 25, 2018 - \$108.3 million).

**Aritzia Inc.**  
**Notes to Consolidated Financial Statements**  
March 3, 2019 and February 25, 2018

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(in thousands of Canadian dollars, unless otherwise noted)

**Prepaid expenses and other current assets**

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

**Inventory**

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

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

**Property and equipment**

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

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

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

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

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

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**Notes to Consolidated Financial Statements**  
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(in thousands of Canadian dollars, unless otherwise noted)

**Intangible assets**

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

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

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

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

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

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

**Goodwill**

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

**Impairment of assets**

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

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**Operating leases**

The Company carries on its operations in premises under leases of varying terms, which are accounted for as operating leases. Operating leases are recorded on a straight-line basis over the term of the lease beginning on the possession date. Accordingly, reasonably assured rent escalations are amortized over the lease term, and free-rent periods are allocated a portion of rent expense. The difference between the recognized rental expense and the total rental payments is reflected in the consolidated statements of financial position as a deferred lease liability. Contingent rental payments based on sales volumes are recorded in the period in which the sales occur.

Tenant allowances are recorded as deferred lease credits on the consolidated statements of financial position and amortized as a reduction of rent expense over the term of the respective leases.

**Provisions**

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

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

**Financial instruments**

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

(in thousands of Canadian dollars, unless otherwise noted)

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

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

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

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

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

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

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

#### **Offsetting financial instruments**

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

#### **Share capital**

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

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deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to retained earnings.

**Revenue recognition**

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

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

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

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

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

**Cost of goods sold**

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

**Selling, general and administrative**

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

**Store opening costs**

Store opening costs are expensed as incurred.

(in thousands of Canadian dollars, unless otherwise noted)

### **Employee benefits**

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

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

### **Income tax expense**

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

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

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

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

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

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**Stock-based compensation expense**

**Stock Option Plans**

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

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

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

**Deferred Share Units and Restricted Share Units**

The Company has a Director Deferred Share Unit ("DSU") Program for non employee board members. Effective October 3, 2018, the Company adopted a Restricted Share Unit ("RSU") Program for employees and consultants. DSUs and RSUs are grants of notional subordinate voting shares that are redeemable for cash based on the market value of the Company's shares and are non-dilutive to shareholders. The cost of the service received as consideration is initially measured based on the market value of the Company's shares at the date of grant. The grant-date fair value is recognized as stock-based compensation expense with a corresponding increase recorded in other liabilities. DSUs and RSUs are remeasured at each reporting date based on the market value of the Company's shares with changes in fair value recognized as stock-based compensation expense for the proportion of the service that has been rendered at that date.

**Net income per share**

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

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

(in thousands of Canadian dollars, unless otherwise noted)

#### 4 Critical accounting estimates and judgments

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

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

- The provision recorded to remeasure inventories based on the lower of cost and net realizable value (note 5), which is a critical estimate.
- Property and equipment impairment testing, which is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses, if any (note 6). These estimates include future cash flow projections, growth rates and discount rates.
- Goodwill and indefinite life intangible asset impairment testing, which requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. The recoverable value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates (note 7).
- Stock-based compensation expense, which requires the use of judgment in determining the most appropriate inputs, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility and forfeiture rate (note 13).
- Gift card breakage, which requires the use of judgment in defining the Company's average gift card breakage rate, based on historical redemption rates (note 3). The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.
- Income taxes, which requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (note 16).

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**5 Inventory**

	March 3, 2019	February 25, 2018
Finished goods	\$ 98,324	\$ 60,385
Finished goods in transit	13,859	18,448
	<u>\$ 112,183</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 \$3.2 million for the year ended March 3, 2019 (February 25, 2018 - \$2.0 million). No inventory write-downs recorded in previous periods were reversed.

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

**6 Property and equipment**

	Leasehold improvements	Furniture and equipment	Computer hardware	Computer software	Construction- in- progress	Total
<b>Cost</b>						
Balance, February 26, 2017	\$ 131,305	\$ 30,837	\$ 10,122	\$ 8,128	\$ 14,482	\$ 194,874
Additions	29,906	7,317	4,000	981	20,194	62,398
Transfers from construction- in-progress	9,844	718	355	8	(10,925)	-
Dispositions	-	(337)	(1,784)	(2,847)	-	(4,968)
Foreign exchange	(1,450)	(321)	(68)	(149)	(402)	(2,390)
Balance, February 25, 2018	169,605	38,214	12,625	6,121	23,349	249,914
Additions	26,596	9,085	3,348	356	14,566	53,951
Transfers from construction- in-progress	24,099	6,216	290	864	(31,469)	-
Dispositions	(15,011)	(4,057)	(1,011)	(240)	-	(20,319)
Foreign exchange	2,022	407	195	(87)	1,835	4,372
Balance, March 3, 2019	<u>\$ 207,311</u>	<u>\$ 49,865</u>	<u>\$ 15,447</u>	<u>\$ 7,014</u>	<u>\$ 8,281</u>	<u>\$ 287,918</u>
<b>Accumulated depreciation</b>						
Balance, February 26, 2017	\$ 67,372	\$ 18,716	\$ 7,210	\$ 5,881	-	\$ 99,179
Depreciation	13,846	3,465	2,300	1,321	-	20,932
Dispositions	-	(185)	(1,679)	(2,770)	-	(4,634)
Foreign exchange	(849)	(180)	(66)	(140)	-	(1,235)
Balance, February 25, 2018	80,369	21,816	7,765	4,292	-	114,242
Depreciation	16,389	4,677	2,859	783	-	24,708
Dispositions	(15,011)	(4,057)	(1,011)	(240)	-	(20,319)
Foreign exchange	1,169	442	57	26	-	1,694
Balance, March 3, 2019	<u>\$ 82,916</u>	<u>\$ 22,878</u>	<u>\$ 9,670</u>	<u>\$ 4,861</u>	<u>\$ -</u>	<u>\$ 120,325</u>
<b>Net carrying value</b>						
Balance, March 3, 2019	\$ 124,395	\$ 26,987	\$ 5,777	\$ 2,153	\$ 8,281	\$ 167,593
Balance, February 25, 2018	89,236	16,398	4,860	1,829	23,349	135,672

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

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During the year ended March 3, 2019, interest of \$182 was capitalized to assets under construction (February 25, 2018 - \$239). These interest costs relating to qualifying assets were capitalized at a weighted average rate of 3.97% (February 25, 2018 - 3.21%).

**7 Goodwill and intangible assets**

	Indefinite life trade name	Definite life trade name	Trademarks	Computer software	Other intangible assets	Construction-in-progress	Total intangible assets
<b>Cost</b>							
Balance, February 26, 2017	\$ 46,092	\$ 17,175	\$ 1,709	\$ 21,910	\$ 3,519	\$ -	\$ 90,405
Additions	-	-	-	4,815	-	-	4,815
Balance, February 25, 2018	46,092	17,175	1,709	26,725	3,519	-	95,220
Additions	-	-	210	3,989	-	1,198	5,397
Balance, March 3, 2019	\$ 46,092	\$ 17,175	\$ 1,919	\$ 30,714	\$ 3,519	\$ 1,198	\$ 100,617
<b>Accumulated amortization</b>							
Balance, February 26, 2017	\$ -	\$ 9,583	\$ 1,709	\$ 17,110	\$ 3,519	\$ -	\$ 31,921
Amortization	-	657	-	1,255	-	-	1,912
Balance, February 25, 2018	-	10,240	1,709	18,365	3,519	-	33,833
Amortization	-	657	-	1,700	-	-	2,357
Balance, March 3, 2019	\$ -	\$ 10,897	\$ 1,709	\$ 20,065	\$ 3,519	\$ -	\$ 36,190
<b>Net carrying value</b>							
Balance, March 3, 2019	\$ 46,092	\$ 6,278	\$ 210	\$ 10,649	\$ -	\$ 1,198	\$ 64,427
Balance, February 25, 2018	46,092	6,935	-	8,360	-	-	61,387

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

Until December 19, 2005, the operations of the Company were owned by a private, closely held Canadian company. On December 19, 2005, Berkshire purchased the majority of the operations through a newly created company, Aritzia Capital Corporation. The acquisition transaction was treated as a business combination and the identified assets and liabilities that were acquired were measured at their acquisition date fair values, including goodwill and the indefinite life trade name. During the years ended March 3, 2019 and February 25, 2018, there were no additions to goodwill.

Goodwill and the indefinite life trade name are monitored and allocated to the group of CGUs at a country level, based on the expected future benefits to be derived.

In assessing goodwill and the indefinite life trade name for impairment, the Company compared the aggregate recoverable amount of the assets included in each of the CGUs to their respective carrying amounts. The recoverable amounts have been determined based on the higher of the value in use and fair value less costs of disposal. The Company performed its annual impairment test of goodwill and the indefinite life trade name on the first day of the fourth quarter in fiscal 2019 and fiscal 2018.

# Aritzia Inc.

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The recoverable amount of goodwill and the indefinite life trade name was based on value in use, calculated using discounted cash flows over five years with a terminal value generated from continuing use of the CGUs. Cash flows were projected based on actual operating results and growth assumptions of 2.00% to account for what management believes approximates inflationary increases. A pre-tax discount rate of 10.64% was used in the model. Reasonably possible changes in key assumptions would not cause the carrying amount to exceed the estimated recoverable amount.

As at March 3, 2019 and February 25, 2018, management has determined that there was no impairment of goodwill or the indefinite life trade name.

### 8 Accounts payable and accrued liabilities

	March 3, 2019	February 25, 2018 (Restated - note 2)
Trade accounts payable	\$ 35,411	\$ 44,141
Other non-trade payables	11,687	7,108
Employee benefits payable	15,638	16,043
	<u>\$ 62,736</u>	<u>\$ 67,292</u>

### 9 Other non-current liabilities

	March 3, 2019	February 25, 2018
Deferred lease liability	\$ 40,256	\$ 37,529
Deferred lease inducements	28,131	20,617
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 13)	1,097	504
Asset retirement obligations	344	916
	<u>\$ 69,828</u>	<u>\$ 59,566</u>

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**10 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

	March 3, 2019	February 25, 2018
Term loan	\$ 75,000	\$ 118,738
Less: Deferred financing fees	(376)	(151)
	<hr/>	<hr/>
Term loan, net of deferred financing fees	74,624	118,587
Less: Current portion	-	(19,127)
	<hr/>	<hr/>
Long-term debt	<u>\$ 74,624</u>	<u>\$ 99,460</u>

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.

During the year ended March 3, 2019 the Company incurred \$3.4 million of interest (February 25, 2018 - \$4.1 million), at a weighted average rate of 3.97% (February 25, 2018 - 3.21%). As at March 3, 2019, the interest rate on the loan was 3.57% (February 25, 2018 - 3.58%), based on a one-month BA rate.

The term loan requires mandatory loan prepayments by the Company of principal and interest if certain events occur. As at March 3, 2019 and February 25, 2018, the Company was not required to make a mandatory loan prepayment.

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

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b) Bank indebtedness

The Company has a revolving credit facility of \$100.0 million (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%). As at March 3, 2019, there were no open letters of credit against the revolving credit facility. As at February 25, 2018, the amount available under the revolving credit facility was reduced to \$54.1 million by certain open letters of credit (note 18(c)). Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan.

As at March 3, 2019 and February 25, 2018, 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 \$31.9 million (February 25, 2018 - \$70.0 million) by certain open letters of credit (note 18(c)).

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 March 3, 2019 and February 25, 2018, the Company was in compliance with all financial covenants.

## 11 Derivative financial instruments

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

The amounts recorded in the consolidated statements of operations in other (income) expense include the unrealized change in fair value of foreign currency forward contracts during the year ended March 3, 2019, which was a loss of \$0.4 million (February 25, 2018 - gain of \$0.2 million). During the year ended March 3, 2019, the Company also realized a gain of \$2.3 million (February 25, 2018 - a loss of \$2.2 million), in other (income) expense, arising from the settlement of foreign currency forward contracts.

The foreign currency forward contracts generally have a term of no more than 12 months. The notional amount of these contracts outstanding as at March 3, 2019 was \$nil (February 25, 2018 - \$30.3 million U.S. dollars at an average forward rate of 1.2494). As at February 25, 2018, the forward contracts had a positive fair value of \$0.4 million.

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## **12 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 voting shares repurchased, and charges retained earnings for the difference between the price paid and the average book value. During the year ended March 3, 2019, the Company repurchased 549,880 subordinate voting shares for cancellation at an average price of \$17.07 per subordinate voting share, for total cash consideration of \$9.4 million.

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 blackout periods based on the parameters of the NCIB and ASPP. On March 3, 2019, in connection with the Share Repurchase, the Company cancelled its ASPP.

On February 19, 2019, in connection with the March 2019 Secondary Offering and Share Repurchase, certain selling shareholders exchanged 5,344,234 of their multiple voting shares for subordinate voting shares.

As at March 3, 2019, there were 44,531,768 multiple voting shares and 69,409,683 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at March 3, 2019. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

## **13 Stock options**

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

### **Legacy Plan**

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

Transactions for stock options granted under the Legacy Plan for the years ended March 3, 2019 and February 25, 2018 were as follows:

**Aritzia Inc.**  
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	March 3, 2019		February 25, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	7,748,370	\$ 4.09	11,288,672	\$ 3.82
Exercised	(2,345,238)	2.68	(3,258,882)	3.15
Forfeited	(321,415)	5.76	(260,026)	4.28
Expired	-	-	(21,394)	2.36
Outstanding, at end of year	5,081,717	\$ 4.64	7,748,370	\$ 4.09
Exercisable, at end of year	3,993,040	4.25	5,546,773	\$ 3.44

Information relating to stock options outstanding under the Legacy Plan and exercisable as at March 3, 2019 is as follows:

Exercise prices per share	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$0.01 to \$3.88	1,585,944	2.51	\$2.47	1,500,534	2.35	\$2.42
\$3.89 to \$5.24	1,790,653	3.71	\$4.76	1,665,514	3.55	\$4.80
\$5.25 to \$7.09	1,705,120	6.91	\$6.52	826,992	6.89	\$6.45
	5,081,717	4.41	\$4.64	3,993,040	3.79	\$4.25

Stock-based compensation expense in relation to the options under the Legacy Plan for the year ended March 3, 2019 was \$2.4 million (February 25, 2018 - \$5.7 million).

### Option Plan

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

Transactions for stock options granted under the Option Plan for the years ended March 3, 2019 and February 25, 2018 were as follows:

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	March 3, 2019		February 25, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	4,947,348	\$ 14.80	3,263,759	\$ 16.12
Granted	305,721	16.00	2,786,295	13.75
Exercised	(114,750)	15.50	-	-
Forfeited	(370,592)	15.51	(430,807)	16.07
Cancelled	-	-	(671,899)	16.00
Outstanding, at end of year	<u>4,767,727</u>	<u>\$ 14.81</u>	<u>4,947,348</u>	<u>\$ 14.80</u>
Exercisable, at end of year	1,214,409	\$ 15.13	456,929	\$ 16.14

Information relating to stock options outstanding under the Option Plan and exercisable as at March 3, 2019 is as follows:

Exercise prices per share	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$12.99 to \$14.12	2,343,083	5.76	\$13.64	446,688	5.74	\$13.66
\$14.13 to \$18.16	2,424,644	4.91	\$15.93	767,721	4.73	\$15.99
	<u>4,767,727</u>	<u>5.33</u>	<u>\$14.80</u>	<u>1,214,409</u>	<u>5.10</u>	<u>\$15.13</u>

The weighted average fair value of the time-based stock options granted during the year ended March 3, 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	38.0% to 41.0%
Risk-free interest rate	1.9% to 2.4%
Expected life	6.0 years
Exercise price	\$12.99 to \$18.16
Weighted average fair value of stock options estimated at the date of grant	\$6.58

Stock-based compensation expense in relation to the options under the Option Plan for the year ended March 3, 2019 was \$8.6 million (February 25, 2018 - \$11.2 million). Included in the expense for the year ended February 25, 2018 was \$2.3 million recognized from the cancellation of 671,899 time-based options granted to a director and officer of the Company. The cancellation of these options resulted in accelerated vesting in accordance with IFRS 2.

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**Director Deferred Share Unit ("DSU") Program**

Each eligible director receives a portion of his or her annual director retainer in DSUs. DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. DSUs are granted quarterly and the Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was \$1.1 million as at March 3, 2019 (February 25, 2018 - \$0.5 million), with an expense of \$0.5 million for the year ended March 3, 2019 (February 25, 2018 - \$0.3 million), recorded as stock-based compensation expense.

Transactions for DSUs granted for the years ended March 3, 2019 and February 25, 2018 were as follows:

	<b>March 3, 2019</b>	<b>February 25, 2018</b>
	<b>Number of DSUs</b>	<b>Number of DSUs</b>
Outstanding, at beginning of year	40,220	10,990
Granted	24,971	29,230
Outstanding, at end of year	<b>65,191</b>	<b>40,220</b>
Vested, at end of year	65,191	40,220

**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 \$30 as at March 3, 2019, with an expense of \$30 for the year ended March 3, 2019, recorded as stock-based compensation expense. The amount of RSUs granted for the year ended March 3, 2019 was 38,099 units and no units were vested as at March 3, 2019.

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**14 Net income per share**

a) Basic

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

	March 3, 2019	February 25, 2018
Net income attributable to shareholders of the Company	\$ 78,728	\$ 57,093
Weighted average number of shares outstanding during the year <i>(thousands)</i>	113,015	110,180
Basic net income per share	<u>\$ 0.70</u>	<u>\$ 0.52</u>

b) Diluted

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

	March 3, 2019	February 25, 2018
Net income attributable to shareholders of the Company	\$ 78,728	\$ 57,093
Weighted average number of shares for net income per diluted share <i>(thousands)</i>	117,358	116,280
Net income per diluted share	<u>\$ 0.67</u>	<u>\$ 0.49</u>

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15 Expenses by nature

	Cost of goods sold	
	March 3, 2019	February 25, 2018
Inventory and product-related costs and occupancy costs	\$ 510,135	\$ 429,969
Depreciation expense	21,248	17,807
	<u>\$ 531,383</u>	<u>\$ 447,776</u>
	Personnel expenses	
	March 3, 2019	February 25, 2018
Salaries, wages and employee benefits	\$ 177,152	\$ 147,708
Stock-based compensation expense	11,540	17,240
	<u>\$ 188,692</u>	<u>\$ 164,948</u>
	Finance expense	
	March 3, 2019	February 25, 2018
Interest expense and banking fees	\$ 4,636	\$ 5,029
Amortization of deferred financing fees	185	192
	<u>\$ 4,821</u>	<u>\$ 5,221</u>
	Other (income) expenses	
	March 3, 2019	February 25, 2018
Realized foreign exchange (gain) loss	\$ (3,003)	\$ 2,750
Unrealized foreign exchange (gain)	(1,250)	-
Lease exit cost <sup>(1)</sup>	5,725	-
Offering transaction cost recovery (note 1 and note 19 (a)) <sup>(2)</sup>	(171)	-
Interest income	(1,696)	(860)
	<u>\$ (395)</u>	<u>\$ 1,890</u>

<sup>(1)</sup> The lease exit cost of \$5.7 million related to an expense for the exit of a lease commitment for the planned repositioning of one of the Company's flagship boutiques. However, the Company was later able to secure a long term lease extension for its original flagship location.

<sup>(2)</sup> Offering transaction cost recovery of (\$115) in Fiscal 2018 was recorded in selling, general and administrative expenses.

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**16 Income taxes**

a) Income tax expense

	March 3, 2019	February 25, 2018
Current tax expense		
Current period	\$ 31,592	\$ 26,310
Adjustment for prior period	44	(492)
	<u>31,636</u>	<u>25,818</u>
Deferred tax expense		
Origination and reversal of temporary differences	1,291	2,273
Adjustment for prior period	(44)	270
Changes in substantively enacted tax rates	39	1,829
	<u>1,286</u>	<u>4,372</u>
Income tax expense	<u>\$ 32,922</u>	<u>\$ 30,190</u>

b) Reconciliation of effective tax rate

The Company's income tax expense differs from that calculated by applying the combined substantively enacted Canadian federal and provincial statutory income tax rates for the years ended March 3, 2019 and February 25, 2018 of 26.9% and 26.4%, respectively, as follows:

	March 3, 2019	February 25, 2018
Income before income taxes	<u>\$ 111,650</u>	<u>\$ 87,283</u>
Expected income tax expense	\$ 30,000	\$ 23,060
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation	2,942	4,468
Charitable contributions	(269)	-
Foreign tax rate differences	238	766
Changes in substantively enacted tax rates	39	1,829
Other	(28)	67
Income tax expense	<u>\$ 32,922</u>	<u>\$ 30,190</u>

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c) Deferred income tax

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at March 3, 2019 and February 25, 2018 are as follows:

	March 3, 2019	February 25, 2018
Deferred tax assets		
Deferred lease liability	\$ 20,258	\$ 17,067
Stock-based compensation	295	135
Financing and share issuance costs	1,281	1,558
Accounts payable and accrued liabilities	1,254	596
Charitable contributions	153	-
Other	2,619	2,631
	<hr/>	<hr/>
Total deferred tax assets	25,860	21,987
Deferred tax liabilities		
Goodwill and intangible assets	(22,788)	(20,869)
Property and equipment	(15,427)	(12,485)
Other	(41)	(38)
	<hr/>	<hr/>
Total deferred tax liabilities	(38,256)	(33,392)
Net deferred tax liability	<hr/> <u>\$ (12,396)</u>	<hr/> <u>\$ (11,405)</u>

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

	March 3, 2019	February 25, 2018
Deferred tax expense recorded in net income	\$ 1,286	\$ 4,372
Deferred tax expense recorded in other comprehensive income (loss)	(296)	332
	<hr/>	<hr/>
	<u>\$ 990</u>	<u>\$ 4,704</u>

Of the deferred income tax balances, the Company expects \$4.4 million of the deferred tax assets to be recovered within 12 months and \$4.0 million of the deferred tax liabilities to be settled within 12 months.

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

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**17 Segment information**

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

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

	<b>March 3, 2019</b>	<b>February 25, 2018</b>
Canada	\$ 609,070	\$ 548,728
United States	265,226	194,539
	<u>\$ 874,296</u>	<u>\$ 743,267</u>

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

	<b>March 3, 2019</b>	<b>February 25, 2018</b>
Canada	\$ 316,344	\$ 291,270
United States	67,358	57,471
	<u>\$ 383,702</u>	<u>\$ 348,741</u>

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## 18 Commitments and contingencies

### a) Operating leases

The Company conducts operations from leased boutiques, distribution centres and administrative offices. For the year ended March 3, 2019, the rent expense under these operating leases was \$117.0 million, including \$5.3 million of contingent rent (February 25, 2018 - \$103.3 million, including \$2.0 million of contingent rent).

Leases for certain premises of the Company 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 rent based on a percentage of sales, are as follows:

Less than 1 year	\$	83,551
Between 1 and 5 years		356,517
More than 5 years		235,354
		<hr/>
Total	\$	675,422

Subsequent to period end, the Company entered into additional operating leases, increasing the total minimum lease commitments by \$20.4 million.

### b) Product purchase obligations

As at March 3, 2019, the Company had purchase obligations of \$45.6 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 March 3, 2019, the Company had open letters of credit of \$43.1 million (February 25, 2018 - \$20.9 million).

## 19 Related party transactions

Prior to the August 2018 Secondary Offering, the Company was ultimately controlled by Canada Retail Holdings, L.P., being the Company's ultimate parent and the Berkshire Shareholder. Effective August 7, 2018, upon completion of the August 2018 Secondary Offering, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of the Company. Subsequent to the year ended March 3, 2019, upon completion of the March 2019 Secondary Offering and Share Repurchase, 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.

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The Company entered into the following transactions with related parties:

- a) Total reimbursements to Berkshire for travel, lodging and other costs for the year ended March 3, 2019 was \$59 (February 25, 2018 - \$66). As at March 3, 2019, \$nil was included in accounts payable and accrued liabilities (March 3, 2019 - \$nil).

In connection with the March 2019 Secondary Offering and Share Repurchase, the Company incurred an aggregate of \$2.5 million in professional fees and other costs, \$185 of which are costs incurred on behalf of the selling shareholders. As at March 3, 2019, \$2.5 million was included in accounts receivable, which represents the full amount being reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder. Also, in connection with the March 2019 Secondary Offering and Share Repurchase, \$0.7 million in costs relating to the Company's IPO, previously included in accounts payable and accrued liabilities, was extinguished.

- b) During the year ended March 3, 2019, the Company paid \$4.1 million (February 25, 2018 - \$3.6 million), for rent of premises and \$0.9 million (February 25, 2018 - \$0.4 million) for the use of a leased asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at March 3, 2019, \$71 was included in accounts payable and accrued liabilities (February 25, 2018 - \$100) and \$52 was included in prepaid expenses and other current assets (February 25, 2018 - \$nil).
- c) During the year ended February 25, 2018, the Company purchased \$8.3 million 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:

	March 3, 2019	February 25, 2018
Salaries, directors' fees and short-term benefits	\$ 3,478	\$ 3,117
Stock-based compensation expense <sup>(1)</sup>	3,695	7,358
	<u>\$ 7,173</u>	<u>\$ 10,475</u>

<sup>(1)</sup> Included in the expense for the year ended February 25, 2018 was \$2.3 million of expense recognized from the cancellation of 671,899 time-based options granted to a director and officer of the Company. The cancellation of these options resulted in accelerated vesting in accordance with IFRS 2.

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**20 Supplemental cash flow information**

	March 3, 2019	February 25, 2018
Net change in non-cash working capital balances		(Restated - note 2)
Accounts receivable	\$ (1,545)	\$ 941
Inventory	(34,457)	(5,155)
Prepaid expenses and other current assets	(1,714)	(2,432)
Other assets	(217)	300
Accounts payable and accrued liabilities	(6,181)	15,640
Deferred revenue	4,498	3,719
	<u>\$ (39,616)</u>	<u>\$ 13,013</u>
Supplemental cash flow information		
Accrued purchases of property and equipment	\$ 4,470	\$ 6,799
Accrued purchases of intangible assets	-	271

**21 Financial instruments and risk management**

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

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

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Financial instruments by category

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

	March 3, 2019	February 25, 2018 (Restated - note 2)
Financial assets		
Cash and cash equivalents	\$ 100,897	\$ 112,475
Accounts receivable	4,355	2,413
Foreign currency forward contracts	-	414
Financial liabilities		
Accounts payable and accrued liabilities	\$ 62,736	\$ 67,292
Long-term debt (net of deferred financing fees)	74,624	118,587

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

	March 3, 2019	February 25, 2018
Long-term debt (Level 2)	\$ 75,000	\$ 118,738
Foreign currency forward contracts (Level 2)	-	414

a) Market risk

Currency risk

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

As at March 3, 2019, a \$0.01 variation in the Canadian dollar against the U.S. dollar on net monetary accounts in U.S. dollars would, with all other variables being constant, have an approximate favourable (or unfavourable) impact of \$0.3 million on net income.

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Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, bank indebtedness and long-term debt. Debt issued at variable rates exposes the Company to cash flow interest rate risk. Debt issued at fixed rates exposes the Company to fair value interest rate risk. During the year, the Company had only variable rate debt. An increase (or decrease) in interest rate by 1% would result in an increase (or decrease) of \$0.9 million in interest expense on the Credit Facilities.

b) Credit risk

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

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company manages liquidity risk through various means, including monitoring actual and projected cash flows, taking into account the seasonality of its revenue, income and working capital needs. The Company's revolving credit facility is used to maintain liquidity. As at March 3, 2019, the Company had available credit of \$100.0 million (February 25, 2018 - \$70.0 million) under its revolving credit facility, of which \$nil (February 25, 2018 - \$nil) was drawn, and had no outstanding letters of credit (February 25, 2018 - \$15.9 million of outstanding letters of credit, which reduced the availability under the revolving credit facility). Any amount drawn under this credit facility is presented as bank indebtedness in current liabilities based on the Company's estimate of what it expects to settle in the next 12 months (note 10). As at March 3, 2019, the Company also had available credit of \$75.0 million under trade finance agreements (February 25, 2018 - \$75.0 million), of which \$43.1 million of letters of credit were outstanding (February 25, 2018 - \$5.0 million).

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The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at March 3, 2019:

	Within one year	After one but not more than 5 years	After 5 years	Total
Accounts payable and accrued liabilities	\$ 62,736	\$ -	\$ -	\$ 62,736
Assumed interest on long-term debt <sup>(1)</sup>	2,668	5,952	-	8,620
Long-term debt	-	75,000	-	75,000
<b>Total</b>	<b>\$ 65,404</b>	<b>\$ 80,952</b>	<b>\$ -</b>	<b>\$ 146,356</b>

<sup>(1)</sup> Based on interest rates in effect as at March 3, 2019.

## 22 Capital management

The Company's objectives when managing capital are to:

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

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

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