

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Second Quarter of Fiscal 2017

For the 13-week and 26-week periods ended
August 28, 2016 and August 30, 2015

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at August 28, 2016 and February 28, 2016

(Unaudited, in thousands of Canadian dollars)

	Note	August 28, 2016	February 28, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 11,307	$ 3,586
Accounts receivable		2,049	3,600
Income taxes recoverable		-	726
Prepaid expenses and other current assets		12,003	10,245
Inventory	5	81,515	77,331
Total current assets		106,874	95,488
Property and equipment	6	85,239	81,490
Intangible assets		57,434	58,522
Goodwill		151,682	151,682
Other assets		5,643	4,892
Deferred tax assets	14	17,846	9,044
Total assets		$ 424,718	$ 401,118
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 36,066	$ 33,157
Income taxes payable		7,921	11,769
Current portion of lease obligations		724	707
Current portion of long-term debt	9	11,370	11,348
Deferred revenue		9,814	10,170
Total current liabilities		65,895	67,151
Other non-current liabilities	8	149,276	74,948
Deferred tax liabilities	14	-	12,174
Lease obligations		1,367	1,774
Long-term debt	9	132,651	132,389
Total liabilities		349,189	288,436
Shareholders' Equity			
Share capital		75,371	75,371
Contributed surplus		22,451	-
Retained earnings (deficit)		(21,911)	37,629
Accumulated other comprehensive loss		(382)	(318)
Total shareholders' equity		75,529	112,682
Total liabilities and shareholders' equity		$ 424,718	$ 401,118

Commitments and contingencies (note 16)

Subsequent events (notes 1, 11 and 19)

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Operations

For the 13-week and 26-week periods ended August 28, 2016 and August 30, 2015

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

		13-week periods ended		26-week periods ended	
	Note	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Net revenue		$ 157,918	$ 121,360	$ 284,325	$ 219,725
Cost of goods sold	13	101,247	79,778	176,443	141,767
Gross profit		56,671	41,582	107,882	77,958
Operating expenses					
Selling, general and administrative		46,411	31,889	80,838	60,859
Stock-based compensation expense	11, 13	90,946	2,776	94,666	4,391
Income (loss) from operations		(80,686)	6,917	(67,622)	12,708
Finance expense	13	2,274	3,021	4,558	5,988
Other expenses (income), net		145	(2,663)	178	(2,812)
Income (loss) before income taxes		(83,105)	6,559	(72,358)	9,532
Income tax expense (recovery)	14	(15,817)	1,815	(12,818)	2,726
Net income (loss)		$ (67,288)	$ 4,744	$ (59,540)	$ 6,806
Net income (loss) per common share					
Basic	12	$ (0.65)	$ 0.05	$ (0.58)	$ 0.07
Diluted	12	(0.65)	0.05	(0.58)	0.07
Weighted average number of common shares outstanding *(thousands)*					
Basic	12	103,041	103,046	103,041	103,046
Diluted	12	103,041	103,046	103,041	103,046

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the 13-week and 26-week periods ended August 28, 2016 and August 30, 2015

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		26-week periods ended	
	August 28, 2016	**August 30, 2015**	**August 28, 2016**	**August 30, 2015**
Net income (loss)	$ (67,288)	$ 4,744	$ (59,540)	$ 6,806
Other comprehensive loss				
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	(3)	(7)	(64)	(2)
Comprehensive income (loss)	$ (67,291)	$ 4,737	$ (59,604)	$ 6,804

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 26-week periods ended August 28, 2016 and August 30, 2015

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

	Class A common shares		Class C common shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amounts	Shares	Amounts				
Balance, March 1, 2015	110,996,171	$ 66,517	62,781,263	$ 8,864	$ -	$ 5,257	$ (327)	$ 80,311
Net income	-	-	-	-	-	6,806	-	6,806
Share repurchase	(8,483)	(10)	-	-	-	-	-	(10)
Foreign currency translation adjustment	-	-	-	-	-	-	(2)	(2)
Balance, August 30, 2015	110,987,688	$ 66,507	62,781,263	$ 8,864	$ -	$ 12,063	$ (329)	$ 87,105
Balance, February 28, 2016	110,987,688	$ 66,507	62,781,263	$ 8,864	$ -	$ 37,629	$ (318)	$ 112,682
Net loss	-	-	-	-	-	(59,540)	-	(59,540)
Stock-based compensation expense (note 11)	-	-	-	-	22,451	-	-	22,451
Foreign currency translation adjustment	-	-	-	-	-	-	(64)	(64)
Balance, August 28, 2016	110,987,688	$ 66,507	62,781,263	$ 8,864	$ 22,451	$ (21,911)	$ (382)	$ 75,529

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the 13-week and 26-week periods ended August 28, 2016 and August 30, 2015

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended August 28, 2016	13-week periods ended August 30, 2015	26-week periods ended August 28, 2016	26-week periods ended August 30, 2015
Operating activities					
Net income (loss) for the period		$ (67,288)	$ 4,744	$ (59,540)	$ 6,806
Adjustments for:					
Depreciation and amortization		4,709	4,469	9,284	8,829
Finance expense		2,274	3,021	4,558	5,988
Stock-based compensation expense	11, 13	90,946	2,776	94,666	4,391
Amortization of deferred rent		650	2,523	1,539	3,807
Proceeds from deferred lease inducements		1,340	753	2,771	1,324
Amortization of deferred lease inducements		(589)	(443)	(1,160)	(865)
Unrealized foreign exchange loss (gain) on forward contracts	10	385	(372)	(794)	(582)
Income tax expense (recovery)	14	(15,817)	1,815	(12,818)	2,726
Other		-	(18)	-	(18)
Cash generated before non-cash working capital balances and interest and income taxes		16,610	19,268	38,506	32,406
Net change in non-cash working capital balances	18	(3,267)	(8,455)	(1,421)	(8,619)
Cash generated before interest and income taxes		13,343	10,813	37,085	23,787
Interest paid		(2,125)	(2,887)	(4,160)	(4,862)
Income taxes paid		(3,558)	(3,143)	(11,604)	(10,069)
Net cash generated from operating activities		7,660	4,783	21,321	8,856
Financing activities					
Proceeds from bank indebtedness	9	-	2,000	-	9,000
Repayment of long-term debt	9	-	-	-	(6,008)
Payment of financing fees		-	(2,547)	-	(2,547)
Repayment of lease obligations		(196)	(65)	(361)	(117)
Net cash (used in) generated from financing activities		(196)	(612)	(361)	328
Investing activities					
Purchase of property and equipment	6	(6,142)	(4,820)	(13,222)	(10,890)
Purchase of intangible assets		-	(165)	-	(165)
Net cash used in investing activities		(6,142)	(4,985)	(13,222)	(11,055)
Effect of exchange rate changes on cash and cash equivalents		(7)	72	(17)	56
Increase (decrease) in cash and cash equivalents		1,315	(742)	7,721	(1,815)
Cash and cash equivalents - Beginning of period		9,992	6,150	3,586	7,223
Cash and cash equivalents - End of period		$ 11,307	$ 5,408	$ 11,307	$ 5,408
Supplemental cash flow information (note 18)					

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

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

1 Nature of operations and basis of presentation

a) Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the "Company") is a design house and fashion retailer. The Company designs apparel and accessories for its collection of exclusive brands and sells them under the Aritzia banner. The Company's range of women's fashion apparel and accessories addresses a range of style preferences and lifestyle requirements. There were 75 and 67 retail stores as at August 28, 2016 and August 30, 2015, respectively.

Aritzia Inc. is a corporation governed by the Business Corporations Act (British Columbia). The address of its registered office is 666 Burrard Street, Suite 1700, Vancouver, B.C., Canada, V6C 2X8. On August 10, 2016, the Company changed its name from Aritzia Capital Corporation to Aritzia Inc.

On October 3, 2016, the Company completed an initial public offering (the "Offering") of its subordinate voting shares through a secondary sale of shares by its principal shareholders. The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "ATZ". See subsequent events (note 19).

b) Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed interim consolidated financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 28, 2016 ("Fiscal 2016").

These unaudited condensed interim consolidated financial statements were authorized for issue by the Audit Committee of the Company's Board of Directors on October 11, 2016.

c) Seasonality of interim operations

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

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

2 Summary of significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as outlined in note 2 of the Fiscal 2016 audited consolidated financial statements.

3 Significant new accounting standards

Standards recently adopted

In December 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company adopted IAS 1 on its unaudited condensed interim consolidated financial statements during the 13-week period ended May 29, 2016, and no material changes have been made as a result of this amendment to IAS 1.

Standards not yet adopted

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

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which reflects all phases of the financial instruments project and replaces IAS 39, "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. The new standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently evaluating the impact of IFRS 9 on its unaudited condensed interim consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

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

In January 2016, the IASB issued IFRS 16, "Leases", which sets out a new model for lease accounting replacing IAS 17. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 is effective for accounting periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently evaluating the impact of IFRS 16 on its unaudited condensed interim consolidated financial statements and expects IFRS 16 to have a fundamental change to the unaudited condensed interim consolidated statement of financial position. The Company expects to apply the standard in accordance with its future mandatory effective date.

4 Critical accounting estimates and judgments

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

In preparing these unaudited condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in note 4 of the Fiscal 2016 audited consolidated financial statements, except for the recognition of the performance-based options (note 11).

5 Inventory

	August 28, 2016	February 28, 2016
Inventory	$ 74,454	$ 68,287
Inventory in transit	7,061	9,044
	$ 81,515	$ 77,331

The Company recorded inventory write-downs as a result of net realizable value being lower than cost, which were recognized in cost of goods sold, of $1.3 million and $2.1 million for the 13-week and 26-week periods ended August 28, 2016, respectively (13-week and 26-week periods ended August 30, 2015 - $0.2 million and $0.3 million, respectively). No inventory write-downs in previous periods were reversed.

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

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

6 Property and equipment

During the 13-week and 26-week periods ended August 28, 2016, the Company had additions of $5.7 million and $12.9 million, respectively, the majority of which were related to leasehold improvements made to the retail stores and purchase of furniture and equipment.

7 Accounts payable and accrued liabilities

	August 28, 2016	February 28, 2016
Trade accounts payable	$ 19,969	$ 18,122
Other non-trade payables	5,967	4,820
Employee benefits payable	10,130	10,215
	$ 36,066	$ 33,157

8 Other non-current liabilities

	August 28, 2016	February 28, 2016
Asset retirement obligations	$ 991	$ 953
Deferred lease liability	28,495	27,757
Deferred lease inducements	13,361	12,023
Stock-based compensation (note 11)	106,429	34,215
	$ 149,276	$ 74,948

9 Bank indebtedness and long-term debt

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

	August 28, 2016	February 28, 2016
Term loan	$ 145,550	$ 145,550
Less: Deferred financing fees	(1,529)	(1,813)
Term loan, net of deferred financing fees	144,021	143,737
Less: Current portion	(11,370)	(11,348)
Long-term debt	$ 132,651	$ 132,389

The term loan matures on May 13, 2019 and requires mandatory loan prepayments by the Company of principal and interest if certain events occur. At August 28, 2016 and February 28, 2016, the Company was not required to make a mandatory loan prepayment.

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

b) Bank indebtedness

The Company has a revolving credit facility for operations of $70.0 million (February 28, 2016 - $70.0 million). The amount available under the credit facility was reduced by open letters of credit to $45.9 million and $51.9 million at August 28, 2016 and February 28, 2016, respectively. Up to $5.0 million of the facility can be drawn upon by way of a swingline loan.

At August 28, 2016 and February 28, 2016, no advances were made under this facility.

These credit facilities are collateralized by a first priority lien on all assets, leased real property interests and inventory which have been pledged as collateral. In addition, the Company is to maintain certain financial covenants. At August 28, 2016 and February 28, 2016, the Company was in compliance with all financial covenants.

Concurrent with the closing of the Offering, the Company amended its credit facilities with its syndicate of lenders (note 19).

10 Derivative financial instruments

The Company uses foreign currency forward contracts to manage its exposure to fluctuations with respect to the U.S. dollar for U.S. dollar merchandise purchases sold in Canada. The fair value of the forward contracts is included in prepaid expenses and other current assets or in accounts payable and accrued liabilities in the unaudited condensed interim consolidated statements of financial position, depending on whether they represent assets or liabilities to the Company. The amounts recorded in the unaudited condensed interim consolidated statements of operations relating to the changes in fair value of foreign currency forward contracts during the 13-week and 26-week periods ended August 28, 2016 were losses of $0.4 million and gains of $0.8 million, respectively (13-week and 26-week periods ended August 30, 2015 - gains of $0.4 million and $0.6 million, respectively), included in other income, net.

The forward contracts generally have a term of no more than 12 months. The notional amount of these contracts outstanding at August 28, 2016 was USD$48.5 million at an average forward rate of 1.2828.

11 Stock options

The Company has a legacy Equity Incentive Plan (the "Legacy Plan") pursuant to which it has granted stock options to directors, employees, consultants and advisors. Concurrent with the Offering, the Company amended and restated the Legacy Plan (note 19). The Company also adopted a new stock option plan (note 19).

Under the Legacy Plan, the Company had prior to the Offering both time-based and performance-based options to acquire Class A or Class D common shares. Time-based and performance-based options vest based on the passage of time over a period of up to five years. Vested performance-based options become earned and exercisable upon a liquidation event based upon the majority shareholders' achievement of a certain internal rate of return. As a result of the Offering (note 19), a liquidation event was triggered, and as such, certain performance-based options under the Legacy Plan became earned and exercisable.

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

A summary of the status of the Legacy Plan is as follows:

	For the 26-week periods ended			
	August 28, 2016		August 30, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, at beginning of period	28,266,082	$ 1.68	27,937,788	$ 1.50
Granted	1,475,000	4.21	350,000	3.18
Forfeited	(150,000)	2.43	(2,049,321)	1.97
Outstanding, at end of period	29,591,082	$ 1.80	26,238,467	$ 1.48

a) Time-based options

The Legacy Plan in effect prior to the Offering provided that the Board of Directors, at its sole discretion, can elect to settle vested time-based options in cash upon the request of an option holder under certain circumstances. As a result of the Company having historically cash settled vested time-based options for certain option holders prior to the Offering, the Company is considered to have a cash-settled plan. As a cash-settled plan, the Company is required to record a liability for the potential future settlement of the vested time-based options at each reporting date by reference to the fair value of the liability.

The fair value of the recorded liability in relation to the time-based options at August 28, 2016 was $106.4 million. The weighted average fair value of vested time-based options at August 28, 2016 and August 30, 2015 was $8.05 and $2.34, respectively.

Stock-based compensation expense is determined based on the changes in fair value of the liability at the end of each reporting period. The fair value of the time-based stock options was estimated at the end of each reporting period using the Black-Scholes option pricing model, over the remaining expected life of each option issuance. The assumptions used in the model for the 26-week periods ended August 28, 2016 and August 30, 2015 include:

	August 28, 2016	August 30, 2015
Dividend yield	0.0%	0.0%
Expected volatility	44.0%	44.0%
Risk-free interest rate	1.0%	1.7%
Expected life	0.8 to 9.8 years	0.6 to 9.7 years
Estimated share price	$9.49	$3.44

The estimated share price at August 28, 2016 was $9.49 (or equivalent to $16.00 post-consolidation, note 19).

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

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

Stock-based compensation expense in relation to the time-based options for the 13-week and 26-week periods ended August 28, 2016 was $68.4 million and $72.2 million, respectively (13-week and 26-week periods ended August 30, 2015 - $2.8 million and $4.4 million, respectively). Included in this expense was an adjustment for the fair value of the options based on an updated estimated share price of the Company of $67.9 million and $71.1 million for the 13-week and 26-week periods ended August 28, 2016, respectively (13-week and 26-week periods ended August 30, 2015 - $2.5 million and $3.7 million, respectively).

b) Performance-based options

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

During August 2016, the Company concluded that it is probable that the performance conditions will be achieved and recognized stock-based compensation expense in relation to the performance-based options of $22.5 million during the 13-week and 26-week periods ended August 28, 2016.

The fair value of the performance-based stock options at the date of grant was estimated using the Black-Scholes option pricing model and the following weighted average assumptions during the 13-week and 26-week periods ended August 28, 2016:

	August 28, 2016
Dividend yield	0.0%
Expected volatility	43.1% to 54.8%
Risk-free interest rate	1.0% to 3.5%
Expected life	0.8 to 10.0 years
Exercise price	$0.01 to $4.21

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

12 Net income (loss) per common share

a) Basic

Basic earnings per common share is calculated by dividing the income (loss) attributable to shareholders of the Company by the weighted average number of common shares outstanding during the periods ended on the dates provided below, after giving effect, on a retrospective basis, to a one-to-0.5931691091 share consolidation that occurred in connection with the Offering subsequent to August 28, 2016 (note 19). As all the classes of common shares are subject to the same distribution rights, the Company performs the net income (loss) per share calculations as if all the common shares are a single class.

	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Net income (loss) attributable to shareholders of the Company	$ (67,288)	$ 4,744	$ (59,540)	$ 6,806
Weighted average number of common shares outstanding during the period *(thousands)*	103,041	103,046	103,041	103,046
Basic net income (loss) per common share	$ (0.65)	$ 0.05	$ (0.58)	$ 0.07

b) Diluted

In calculating diluted net income (loss) per share for options that can be settled in either shares or cash, the more dilutive of the cash-settled and equity-settled method is used. Accordingly, stock options that are accounted for as cash-settled will require adjustments to the numerator and denominator if the equity-settled method is determined to have a more dilutive effect. The cash-settled method was more dilutive for the 13-week and 26-week periods ended August 28, 2016 and August 30, 2015. The weighted average number of common shares outstanding was adjusted after giving effect, on a retrospective basis, to a one-to-0.5931691091 share consolidation that occurred in connection with the Offering subsequent to August 28, 2016 (note 19).

	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Net income (loss) attributable to shareholders of the Company	$ (67,288)	$ 4,744	$ (59,540)	$ 6,806
Weighted average number of common shares outstanding during the period *(thousands)*	103,041	103,046	103,041	103,046
Diluted net income (loss) per common share	$ (0.65)	$ 0.05	$ (0.58)	$ 0.07

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

13 Expenses by nature

	Cost of goods sold			
	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Inventory and product-related costs and occupancy costs	$ 97,608	$ 76,816	$ 169,301	$ 135,970
Depreciation expense	3,639	2,962	7,142	5,797
	$ 101,247	$ 79,778	$ 176,443	$ 141,767

	Personnel expenses			
	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Salaries, wages and employee benefits	$ 34,157	$ 26,881	$ 62,871	$ 51,232
Stock-based compensation expense	90,946	2,776	94,666	4,391
	$ 125,103	$ 29,657	$ 157,537	$ 55,623

	Finance expense			
	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Interest expense and banking fees	$ 2,102	$ 2,964	$ 4,062	$ 5,354
Amortization of deferred financing fees	172	57	496	634
	$ 2,274	$ 3,021	$ 4,558	$ 5,988

14 Income taxes

At August 28, 2016 and February 28, 2016, the Company had deferred tax assets of $17.8 million and $9.0 million, respectively, and deferred tax liabilities of $nil and $12.2 million, respectively. The change in deferred tax balances is primarily the result of an income tax recovery recognized on the increased stock-based compensation liability for the vested time-based options.

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

The income tax expense (recovery) is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week and 26-week periods ended August 28, 2016 is 26.4% (13-week and 26-week periods ended August 30, 2015 - 26.2%). The Company's effective income tax rate for the 13-week and 26-week periods ended August 28, 2016 is 19.0% and 17.7%, respectively (13-week and 26-week periods ended August 30, 2015 – 27.7% and 28.6%, respectively). The decrease in the Company's effective tax rate is driven by the inability to recognize an income tax recovery on the stock-based compensation expense related to the performance-based options as it is not deductible for tax purposes.

15 Segment information

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

The following table summarizes revenue by geographic location of customers:

	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Canada	$ 118,423	$ 93,538	$ 207,263	$ 165,088
United States	39,495	27,822	77,062	54,637
	$ 157,918	$ 121,360	$ 284,325	$ 219,725

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

	August 28, 2016	February 28, 2016
Canada	$ 269,760	$ 267,241
United States	24,595	24,453
	$ 294,355	$ 291,694

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

16 Commitments and contingencies

a) Operating leases

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

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

Less than 1 year	$	62,485
Between 1 and 5 years		233,892
More than 5 years		188,996
Total	$	485,373

b) Purchase obligations

At August 28, 2016 and February 28, 2016, the Company had purchase obligations of $19.5 million and $14.4 million, which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

c) Letters of credit

At August 28, 2016 and February 28, 2016, the Company had open letters of credit of $24.1 million and $18.1 million, respectively.

17 Related party transactions

The Company entered into the following transactions with related parties:

a) During the 13-week and 26-week periods ended August 28, 2016, the Company purchased $1.9 million and $7.1 million, respectively (13-week and 26-week periods ended August 30, 2015 - $1.3 million and $5.8 million, respectively), of merchandise from a company partially owned by private equity funds managed by Berkshire Partners, LLC. As at August 28, 2016 and February 28, 2016, $nil and $170 was included in accounts payable and accrued liabilities, respectively.

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

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

	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Salaries, directors' fees and short-term benefits	$ 790	$ 1,013	$ 1,442	$ 1,715
Stock-based compensation expense (recovery)[1]	11,680	(72)	11,810	62
	$ 12,470	$ 941	$ 13,252	$ 1,777

[1] Stock-based compensation expense for the 13-week and 26-week periods ended August 28, 2016 includes stock-based compensation expense for both the Company's time-based and performance-based options (note 11).

18 Supplemental cash flow information

	13-week periods ended		26-week periods ended	
	August 28, 2016	August 30, 2015	August 28, 2016	August 30, 2015
Net change in non-cash working capital balances				
Accounts receivable	$ 1,882	$ (690)	$ 1,534	$ (708)
Prepaid expenses and other current assets	(412)	2,651	(1,005)	3,695
Inventory	(10,243)	(17,618)	(4,694)	(9,752)
Other assets	(263)	3,022	(1,008)	136
Accounts payable and accrued liabilities	5,404	4,290	4,011	(1,707)
Deferred revenue	365	(110)	(259)	(283)
	$ (3,267)	$ (8,455)	$ (1,421)	$ (8,619)
Supplemental cash flow information				
Accrued purchases of property and equipment	$ 1,370	$ 1,810	$ 1,370	$ 1,810

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

19 Subsequent events

Pursuant to a final prospectus filed on September 26, 2016 with Canadian security regulators, the Company completed an initial public offering in the form of a secondary offering and listed its subordinate voting shares on the Toronto Stock Exchange. The Offering of 25,000,000 subordinate voting shares at $16.00 per subordinate voting share raised gross proceeds of $400,000,000 for the selling shareholders. In addition, such shareholders of the Company granted the underwriters an over-allotment option to purchase from the selling shareholders an additional 3,750,000 subordinate voting shares at an exercise price of $16.00 per subordinate voting share. The over-allotment option was fully exercised after the Offering and raised additional gross proceeds of $60,000,000 for the selling shareholders.

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

Following the foregoing share exchanges, all of the Company's issued and outstanding multiple voting shares and subordinate voting shares were consolidated on a one-to-0.5931691091 basis. Accordingly, the weighted average number of common shares outstanding during the 13-week and 26-week periods ended August 28, 2016, for purposes of calculating net income (loss) per common share, was adjusted after giving effect to the share consolidation, on a retrospective basis (note 12).

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

Immediately prior to the Offering, 3,869,931 options to acquire subordinate voting shares were exercised into subordinate voting shares by one of the Company's shareholders and were sold under the Offering.

Concurrent with the closing of the Offering, the Company amended and restated the Legacy Plan to comply with public company provisions as required by the Toronto Stock Exchange and implemented a new stock option plan. Following completion of the Offering, no additional options shall be granted under the Legacy Plan, and the outstanding options under the Legacy Plan shall be exercisable for subordinate voting shares of the Company.

Upon closing of the Offering, the Company granted time-based options to purchase 2,625,614 subordinate voting shares under the new stock option plan. The Company cancelled 898,625 performance-based options under the Legacy Plan. In addition, the expiration date of certain options under the Legacy Plan was extended from 2017 to April 4, 2018.

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

Concurrent with the closing of the Offering, amendments to the Company's credit facilities with its syndicate of lenders became effective. The amendments included allowing the Company to enter into bilateral letters of credit agreements of up to $75.0 million within different lenders, lowering the applicable margin on interest rates by 125 basis points and amending other terms and conditions.