

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Third Quarter of Fiscal 2017

For the 13-week and 39-week periods ended
November 27, 2016 and November 29, 2015

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at November 27, 2016 and February 28, 2016

(Unaudited, in thousands of Canadian dollars)

	Note	November 27, 2016	February 28, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 59,399	$ 3,586
Accounts receivable		3,796	3,600
Income taxes recoverable		-	726
Prepaid expenses and other current assets		15,001	10,245
Inventory	5	81,654	77,331
Total current assets		159,850	95,488
Property and equipment	6	91,787	81,490
Intangible assets		57,030	58,522
Goodwill		151,682	151,682
Other assets		2,142	4,892
Deferred tax assets	15	10,248	9,044
Total assets		$ 472,739	$ 401,118
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 50,921	$ 33,157
Income taxes payable		15,853	11,769
Current portion of lease obligations		754	707
Current portion of long-term debt	9	-	11,348
Deferred revenue		21,340	10,170
Total current liabilities		88,868	67,151
Other non-current liabilities	8	47,044	74,948
Deferred tax liabilities	15	17,991	12,174
Lease obligations		1,202	1,774
Long-term debt	9	133,729	132,389
Total liabilities		288,834	288,436
Shareholders' Equity			
Share capital		117,962	75,371
Contributed surplus		96,198	-
Retained earnings (deficit)		(30,008)	37,629
Accumulated other comprehensive loss		(247)	(318)
Total shareholders' equity		183,905	112,682
Total liabilities and shareholders' equity		$ 472,739	$ 401,118

Commitments and contingencies (note 17)

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 39-week periods ended November 27, 2016 and November 29, 2015

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

		13-week periods ended		39-week periods ended	
	Note	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Net revenue		$ 186,460	$ 155,380	$ 470,785	$ 375,105
Cost of goods sold	14	104,187	91,902	280,630	233,669
Gross profit		82,273	63,478	190,155	141,436
Operating expenses					
Selling, general and administrative		48,464	35,260	129,302	96,119
Stock-based compensation expense	12, 14	3,965	4,235	98,631	8,626
Income (loss) from operations		29,844	23,983	(37,778)	36,691
Finance expense	14	4,558	2,701	9,116	8,689
Other income, net		(3,129)	(398)	(2,951)	(3,210)
Income (loss) before income taxes		28,415	21,680	(43,943)	31,212
Income tax expense	15	36,512	6,127	23,694	8,853
Net income (loss)		$ (8,097)	$ 15,553	$ (67,637)	$ 22,359
Net income (loss) per share					
Basic	13	$ (0.08)	$ 0.15	$ (0.65)	$ 0.22
Diluted	13	(0.08)	0.15	(0.65)	0.22
Weighted average number of shares outstanding *(thousands)*					
Basic	13	105,454	103,046	103,846	103,046
Diluted	13	105,454	103,046	103,846	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 39-week periods ended November 27, 2016 and November 29, 2015

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Net income (loss)	$ (8,097)	$ 15,553	$ (67,637)	$ 22,359
Other comprehensive income				
Items that are or may be reclassified subsequently to net income:				
Foreign currency translation adjustment	135	15	71	13
Comprehensive income (loss)	$ (7,962)	$ 15,568	$ (67,566)	$ 22,372

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 39-week periods ended November 27, 2016 and November 29, 2015

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

	Class A common shares		Class C common shares		Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts				
Balance, March 1, 2015	110,996,171	$ 66,517	62,781,263	$ 8,864	-	$ -	-	$ -	$ -	$ 5,257	$ (327)	$ 80,311
Net income	-	-	-	-	-	-	-	-	-	22,359	-	22,359
Share repurchase	(8,483)	(10)	-	-	-	-	-	-	-	-	-	(10)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	13	13
Balance, November 29, 2015	110,987,688	$ 66,507	62,781,263	$ 8,864	-	$ -	-	$ -	$ -	$ 27,616	$ (314)	$ 102,673
Balance, February 28, 2016	110,987,688	$ 66,507	62,781,263	$ 8,864	-	$ -	-	$ -	$ -	$ 37,629	$ (318)	$ 112,682
Net loss	-	-	-	-	-	-	-	-	-	(67,637)	-	(67,637)
Share exchange pre-Offering (note 11)	(110,987,688)	(66,507)	(62,781,263)	(8,864)	168,715,036	72,343	5,053,915	3,028	-	-	-	-
Share consolidation (note 11)	-	-	-	-	(68,638,488)	-	(2,056,089)	-	-	-	-	-
Stock-based compensation liability modification to equity (note 12)	-	-	-	-	-	-	-	-	107,215	-	-	107,215
Options exercised (note 12)	-	-	-	-	-	-	3,891,721	42,591	(36,483)	-	-	6,108
Share exchange at Offering (note 11)	-	-	-	-	(24,880,069)	-	24,880,069	-	-	-	-	-
Stock-based compensation expense (note 12)	-	-	-	-	-	-	-	-	25,466	-	-	25,466
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	71	71
Balance, November 27, 2016	-	$ -	-	$ -	75,196,479	$ 72,343	31,769,616	$ 45,619	$ 96,198	$ (30,008)	$ (247)	$ 183,905

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 39-week periods ended November 27, 2016 and November 29, 2015

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		39-week periods ended	
		November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Operating activities					
Net income (loss) for the period		$ (8,097)	$ 15,553	$ (67,637)	$ 22,359
Adjustments for:					
Depreciation and amortization		6,483	4,537	15,767	13,366
Finance expense	14	4,558	2,701	9,116	8,689
Stock-based compensation expense	12, 14	3,965	4,235	98,631	8,626
Amortization of deferred rent		354	1,184	1,893	4,991
Proceeds from deferred lease inducements		3,746	1,937	6,517	3,243
Amortization of deferred lease inducements		(642)	(496)	(1,802)	(1,361)
Unrealized foreign exchange loss (gain) on forward contracts	10	(1,117)	405	(1,911)	(177)
Income tax expense	15	36,512	6,127	23,694	8,853
Cash generated before non-cash working capital balances and interest and income taxes		45,762	36,183	84,268	68,589
Net change in non-cash working capital balances	19	18,600	8,311	17,179	(308)
Cash generated before interest and income taxes		64,362	44,494	101,447	68,281
Interest paid		(1,152)	(2,407)	(5,312)	(7,269)
Income taxes paid		(2,605)	(2,478)	(14,209)	(12,547)
Net cash generated from operating activities		60,605	39,609	81,926	48,465
Financing activities					
Net repayment of bank indebtedness	9	-	(22,000)	-	(13,000)
Payment of long-term debt	9	(11,491)	-	(11,491)	(6,008)
Payment of financing fees		(827)	-	(827)	(2,547)
Repayment of lease obligations		(204)	(103)	(565)	(220)
Net proceeds from options exercised	12	6,038	-	6,038	-
Net cash used in financing activities		(6,484)	(22,103)	(6,845)	(21,775)
Investing activities					
Purchase of property and equipment	6	(6,201)	(10,443)	(19,423)	(21,333)
Purchase of intangible assets		(103)	-	(103)	(165)
Net cash used in investing activities		(6,304)	(10,443)	(19,526)	(21,498)
Effect of exchange rate changes on cash and cash equivalents		275	67	258	123
Increase in cash and cash equivalents		48,092	7,130	55,813	5,315
Cash and cash equivalents - Beginning of period		11,307	5,408	3,586	7,223
Cash and cash equivalents - End of period		$ 59,399	$ 12,538	$ 59,399	$ 12,538
Supplemental cash flow information (note 19)					

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 77 and 72 retail stores as at November 27, 2016 and November 29, 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 Offering of 25,000,000 subordinate voting shares at $16.00 per subordinate voting share raised gross proceeds of $400.0 million for the selling shareholders. In addition, such shareholders of the Company granted the underwriters an over-allotment option to purchase from the selling shareholders an additional 3,750,000 subordinate voting shares at an exercise price of $16.00 per subordinate voting share. The over-allotment option was fully exercised after the Offering and raised additional gross proceeds of $60.0 million for the selling shareholders. Underwriting fees were paid by the selling shareholders, and other expenses related to the Offering of approximately $7.7 million were incurred and are being paid by the Company.

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

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 January 5, 2017.

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

c) Seasonality of interim operations

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

2 Summary of significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as outlined in note 2 of the Fiscal 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 for its 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 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 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 consolidated financial statements and expects IFRS 16 to have a fundamental change to the consolidated statement of financial position. The Company expects to apply the standard in accordance with its future mandatory effective date.

In June 2016, the IASB issued amendments to IFRS 2, "Share-based Payment", clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently evaluating the impact of IFRS 2 on its consolidated financial statements and 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 12).

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

5 Inventory

	November 27, 2016	February 28, 2016
Inventory	$ 74,240	$ 68,287
Inventory in transit	7,414	9,044
	$ 81,654	$ 77,331

The Company records a reserve to value inventory to its estimated net realizable value. This resulted in an expense in cost of goods sold of $0.7 million and $2.3 million for the 13-week and 39-week periods ended November 27, 2016, respectively (13-week and 39-week periods ended November 29, 2015 - $0.2 million and $0.4 million, respectively).

All of the Company's inventory is pledged as security for the Credit Facilities described further below.

6 Property and equipment

During the 13-week and 39-week periods ended November 27, 2016, the Company had additions of $11.3 million and $24.2 million, respectively, the majority of which were related to leasehold improvements made to its retail stores and the purchase of furniture and equipment for such stores.

7 Accounts payable and accrued liabilities

	November 27, 2016	February 28, 2016
Trade accounts payable	$ 30,875	$ 18,122
Other non-trade payables	9,548	4,820
Employee benefits payable	10,498	10,215
	$ 50,921	$ 33,157

8 Other non-current liabilities

	November 27, 2016	February 28, 2016
Deferred lease liability	$ 29,708	$ 27,757
Deferred lease inducements	16,253	12,023
Asset retirement obligations	989	953
Director deferred share unit program liability (note 12)	94	-
Stock-based compensation relating to Legacy Plan (note 12)	-	34,215
	$ 47,044	$ 74,948

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

9 Bank indebtedness and long-term debt

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

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

	November 27, 2016	February 28, 2016
Term loan	$ 134,059	$ 145,550
Less: Deferred financing fees	(330)	(1,813)
Term loan, net of deferred financing fees	133,729	143,737
Less: Current portion [(1)]	-	(11,348)
Long-term debt	$ 133,729	$ 132,389

[(1)] During the 13-week and 39-week periods ended November 27, 2016, the Company voluntarily made an early loan repayment of $11.5 million that was scheduled to be repaid in February 2017.

The term loan matures on May 13, 2019 and requires mandatory loan prepayments by the Company of principal and interest if certain events occur. At November 27, 2016 and February 28, 2016, the Company was not required to make a mandatory loan prepayment.

b) Bank indebtedness

The Company has a revolving credit facility for operations of $70.0 million (February 28, 2016 - $70.0 million). The amount available under this facility was reduced by open letters of credit to $48.6 million and $51.9 million at November 27, 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 November 27, 2016 and February 28, 2016, no advances were made under this facility.

The 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 November 27, 2016 and February 28, 2016, the Company was in compliance with all financial covenants.

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

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 in other income, net relates to the changes in fair value of foreign currency forward contracts during the 13-week and 39-week periods ended November 27, 2016 were gains of $1.1 million and $1.9 million, respectively (13-week and 39-week periods ended November 29, 2015 - loss of $0.4 million and gain of $0.2 million, respectively).

The forward contracts generally have a term of no more than 12 months. The notional amount of these contracts outstanding at November 27, 2016 was USD$29.5 million at an average forward rate of 1.2863.

11 Share capital

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

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

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

As at November 27, 2016, there were 75,196,479 multiple voting shares and 31,769,616 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at November 27, 2016.

12 Stock options

The Company has a legacy Equity Incentive Plan (the "Legacy Plan") pursuant to which it has granted stock options to directors, employees, consultants and advisors. Concurrent with the 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 (the "2016 Option Plan").

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

Legacy Plan

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

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

Following completion of the Offering, 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. In addition, the expiration date of certain options under the Legacy Plan was extended from June 1, 2017 to April 4, 2018.

The following table summarizes the options granted under the Legacy Plan post share consolidation:

	For the 39-week periods ended			
	November 27, 2016		November 29, 2015[1]	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, at beginning of period	16,766,534	$ 2.83	16,571,833	$ 2.53
Granted	874,924	7.09	1,232,104	5.83
Forfeited	(121,662)	4.01	(1,215,594)	3.32
Exercised	(3,891,721)	1.57	-	-
Cancelled [2]	(533,037)	3.56	-	-
Outstanding, at end of period	13,095,038	$ 3.45	16,588,343	$ 2.71

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

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

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

a) Time-based options

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

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

The fair value of the time-based stock options at the date of modification was estimated using the Black-Scholes option pricing model and the following weighted average assumptions from the date of modification to November 27, 2016:

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

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

Stock-based compensation expense in relation to the time-based options for the 13-week and 39-week periods ended November 27, 2016 was $2.1 million and $74.2 million, respectively (13-week and 39-week periods ended November 29, 2015 - $4.2 million and $8.6 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 up to the date of the plan modification, from being cash-settled to equity-settled, on September 30, 2016.

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

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 period ended August 28, 2016. The Company recognized stock-based compensation expense of $0.6 million and $23.1 million during the 13-week and 39-week periods ended November 27, 2016, respectively.

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 from August 2016 to November 27, 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 years
Exercise price (post share consolidation)	$0.01 to $7.09

2016 Option Plan

Concurrent with the Offering, the Company adopted the 2016 Option Plan pursuant to which it can grant share options to acquire subordinate voting shares to directors, executive officers, employees and consultants. On October 3, 2016, the Company granted time-based options to purchase 2,625,614 subordinate voting shares under the 2016 Option Plan. The options annually vest pro-rata on the anniversary of the grant date over a period of five years.

The fair value of the time-based stock options at the date of grant was estimated using the Black-Scholes option pricing model and the following weighted average assumptions from the date of grant to November 27, 2016:

Dividend yield	0.0%
Expected volatility	44.0%
Risk-free interest rate	0.7% to 0.8%
Expected life	6 to 7 years
Exercise price	$16.00

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

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

Director Deferred Share Unit Program

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

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

DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. DSUs are granted quarterly and the Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was $94 at November 27, 2016, with the expense recorded as stock-based compensation expense during the 13-week and 39-week periods ended November 27, 2016.

13 Net income (loss) per share

a) Basic

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

	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Net income (loss) attributable to shareholders of the Company	$ (8,097)	$ 15,553	$ (67,637)	$ 22,359
Weighted average number of shares outstanding during the period *(thousands)*	105,454	103,046	103,846	103,046
Basic net income (loss) per share	$ (0.08)	$ 0.15	$ (0.65)	$ 0.22

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

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 up to the date of modification for the 13-week and 39-week periods ended November 27, 2016 and November 29, 2015. The weighted average number of shares outstanding was adjusted after giving effect, on a retrospective basis, to a one-to-0.5931691091 share consolidation that occurred in connection with the Offering.

	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Net income (loss) attributable to shareholders of the Company	$ (8,097)	$ 15,553	$ (67,637)	$ 22,359
Weighted average number of shares outstanding during the period *(thousands)*	105,454	103,046	103,846	103,046
Diluted net income (loss) per share	$ (0.08)	$ 0.15	$ (0.65)	$ 0.22

14 Expenses by nature

	Cost of goods sold			
	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Inventory and product-related costs and occupancy costs	$ 98,603	$ 88,750	$ 267,904	$ 224,720
Depreciation expense	5,584	3,152	12,726	8,949
	$ 104,187	$ 91,902	$ 280,630	$ 233,669

	Personnel expenses			
	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Salaries, wages and employee benefits	$ 37,560	$ 29,214	$ 100,431	$ 80,446
Stock-based compensation expense	3,965	4,235	98,631	8,626
	$ 41,525	$ 33,449	$ 199,062	$ 89,072

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

	Finance expense			
	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Interest expense and banking fees	$ 1,639	$ 2,440	$ 5,701	$ 7,794
Write-off of deferred financing fees [1]	2,867	-	2,867	-
Amortization of deferred financing fees	52	261	548	895
	$ 4,558	$ 2,701	$ 9,116	$ 8,689

[1] The Company wrote off unamortized deferred financing fees of $2.9 million related to its previous Credit Facilities as a result of the amendment of its Credit Facilities concurrent with the closing of the Offering during the 13-week and 39-week periods ended November 27, 2016 (note 9).

15 Income taxes

At November 27, 2016 and February 28, 2016, the Company had deferred tax assets of $10.2 million and $9.0 million, respectively, and deferred tax liabilities of $18.0 million and $12.2 million, respectively. The change in deferred tax liabilities is primarily the result of a reversal of a deferred tax asset previously recognized on stock-based compensation liability as the expense for time-based options under the Legacy Plan is no longer deductible for tax purposes.

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week and 39-week periods ended November 27, 2016 is 26.4% (13-week and 39-week periods ended November 29, 2015 - 26.2%). The Company's effective income tax rate for the 13-week and 39-week periods ended November 27, 2016 is 128.5% and (53.9%), respectively (13-week and 39-week periods ended November 29, 2015 - 28.3% and 28.4%, respectively). The increase in the 13-week period ended November 27, 2016 effective income tax rate is primarily due to the reversal of a deferred tax asset previously recognized on stock-based compensation liability for time-based options under the Legacy Plan, to income tax expense, as the expense is no longer deductible for tax once it was modified from liability to equity accounting (note 12). The decrease in the 39-week period ended November 27, 2016 effective income tax rate is due to stock-based compensation expense for time-based and performance-based options not being deductible for tax purposes, resulting in an increased income tax expense over a loss before income taxes.

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

16 Segment information

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

The following table summarizes revenue by geographic location of customers:

	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Canada	$ 140,018	$ 119,399	$ 347,280	$ 284,486
United States	46,442	35,981	123,505	90,619
	$ 186,460	$ 155,380	$ 470,785	$ 375,105

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

	November 27, 2016	February 28, 2016
Canada	$ 272,721	$ 267,241
United States	27,778	24,453
	$ 300,499	$ 291,694

17 Commitments and contingencies

a) Operating leases

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

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

Less than 1 year	$ 67,147
Between 1 and 5 years	299,028
More than 5 years	319,323
Total	$ 685,498

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

b) Purchase obligations

At November 27, 2016 and February 28, 2016, the Company had purchase obligations of $15.8 million and $14.4 million, respectively, which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

c) Letters of credit

At November 27, 2016 and February 28, 2016, the Company had open letters of credit of $21.4 million and $18.1 million, respectively.

18 Related party transactions

The Company entered into the following transactions with related parties:

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

During the 13-week and 39-week periods ended November 27, 2016, the Company incurred management fees of $27 and $190, respectively (13-week and 39-week periods ended November 29, 2015 - $81 and $234, respectively), for services rendered. Total net reimbursements to Berkshire for travel, lodging and other costs (including Offering costs) for the 13-week and 39-week periods ended November 27, 2016 were $910 and $1,086, respectively (13-week and 39-week periods ended November 29, 2015 - $1 and $86, respectively).

Accounts payable and accrued liabilities as at November 27, 2016 and February 28, 2016 included amounts due to Berkshire of $894 and $29, respectively.

b) During the 13-week and 39-week periods ended November 27, 2016, the Company purchased $2.5 million and $7.2 million, respectively (13-week and 39-week periods ended November 29, 2015 - $1.5 million and $5.1 million, respectively) of merchandise from a company partially owned by private equity funds managed by Berkshire. As at November 27, 2016 and February 28, 2016, $20 and $170, respectively, was included in accounts payable and accrued liabilities.

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

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

	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Salaries, directors' fees and short-term benefits	$ 787	$ 674	$ 2,229	$ 2,389
Stock-based compensation expense [1]	1,198	74	13,008	136
	$ 1,985	$ 748	$ 15,237	$ 2,525

[1] Stock-based compensation expense for the 13-week and 39-week periods ended November 27, 2016 includes stock-based compensation expense for the Company's time-based and performance-based options under the Legacy Plan, plus stock-based compensation expense for the Company's time-based options under the 2016 Option Plan (note 12).

19 Supplemental cash flow information

	13-week periods ended		39-week periods ended	
	November 27, 2016	November 29, 2015	November 27, 2016	November 29, 2015
Net change in non-cash working capital balances				
Accounts receivable	$ (1,709)	$ 590	$ (175)	$ (118)
Prepaid expenses and other current assets	(2,015)	(843)	(3,020)	2,852
Inventory	469	1,675	(4,225)	(8,077)
Other assets	2,653	(1,315)	1,645	(1,179)
Accounts payable and accrued liabilities	7,836	5,915	11,847	4,208
Deferred revenue	11,366	2,289	11,107	2,006
	$ 18,600	$ 8,311	$ 17,179	$ (308)
Supplemental cash flow information				
Accrued purchases of property and equipment			$ 6,545	$ 3,595
Accrued purchases of intangible assets			$ 69	$ -