ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
First Quarter of Fiscal 2019

For the 13-week periods ended
May 27, 2018 and May 28, 2017

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at May 27, 2018 and February 25, 2018

(Unaudited, in thousands of Canadian dollars)

	Note	May 27, 2018	February 25, 2018 (Restated - note 3)
Assets			
Current assets			
Cash and cash equivalents		$ 122,282	$ 112,475
Accounts receivable		3,393	2,413
Income taxes recoverable		2,276	1,728
Inventory	5	75,401	78,833
Prepaid expenses and other current assets		16,584	16,005
Total current assets		219,936	211,454
Property and equipment	6	146,213	135,672
Intangible assets	6	63,380	61,387
Goodwill		151,682	151,682
Other assets		1,723	1,664
Deferred tax assets		6,274	6,517
Total assets		$ 589,208	$ 568,376
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 69,322	$ 67,292
Current portion of long-term debt	9	118,618	19,127
Deferred revenue		19,795	19,308
Total current liabilities		207,735	105,727
Other non-current liabilities	8	61,713	59,566
Deferred tax liabilities		18,172	17,922
Long-term debt	9	-	99,460
Total liabilities		287,620	282,675
Shareholders' equity			
Share capital	11	173,081	171,130
Contributed surplus		78,611	76,522
Retained earnings		50,341	38,613
Accumulated other comprehensive loss		(445)	(564)
Total shareholders' equity		301,588	285,701
Total liabilities and shareholders' equity		$ 589,208	$ 568,376

Commitments and contingencies (note 17)

Subsequent events (notes 9, 11 and 17)

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Operations

For the 13-week periods ended May 27, 2018 and May 28, 2017

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

	Note	May 27, 2018	May 28, 2017
Net revenue		$ 167,011	$ 145,046
Cost of goods sold	14	99,468	87,508
Gross profit		67,543	57,538
Operating expenses			
Selling, general and administrative		46,993	40,843
Stock-based compensation expense	12, 14	3,819	4,667
Income from operations		16,731	12,028
Finance expense	14	1,391	1,266
Other income		(2,955)	(2,226)
Income before income taxes		18,295	12,988
Income tax expense	15	6,005	4,859
Net income		$ 12,290	$ 8,129
Net income per share			
Basic	13	$ 0.11	$ 0.07
Diluted	13	0.11	0.07
Weighted average number of shares outstanding *(thousands)*			
Basic	13	112,120	108,883
Diluted	13	116,780	116,375

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

For the 13-week periods ended May 27, 2018 and May 28, 2017

(Unaudited, in thousands of Canadian dollars)

	May 27, 2018	May 28, 2017
Net income	$ 12,290	$ 8,129
Other comprehensive income		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	119	110
Comprehensive income	$ 12,409	$ 8,239

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 13-week periods ended May 27, 2018 and May 28, 2017

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

	Multiple voting shares		Subordinate voting shares					
	Shares	Amounts	Shares	Amounts	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total shareholders' equity
Balance, February 26, 2017	55,756,002	$ 72,343	53,016,459	$ 59,510	$ 88,612	$ (18,480)	$ (377)	$ 201,608
Net income	-	-	-	-	-	8,129	-	8,129
Options exercised (note 12)	-	-	271,312	2,781	(1,917)	-	-	864
Stock-based compensation expense (note 12)	-	-	-	-	4,587	-	-	4,587
Foreign currency translation adjustment	-	-	-	-	-	-	110	110
Balance, May 28, 2017	55,756,002	$ 72,343	53,287,771	$ 62,291	$ 91,282	$ (10,351)	$ (267)	$ 215,298
Balance, February 25, 2018	55,756,002	$ 72,343	56,275,341	$ 98,787	$ 76,522	$ 38,613	$ (564)	$ 285,701
Net income	-	-	-	-	-	12,290	-	12,290
Options exercised (note 12)	-	-	270,343	2,044	(1,581)	-	-	463
Stock-based compensation expense (note 12)	-	-	-	-	3,670	-	-	3,670
Normal course issuer bid purchase of subordinate voting shares (note 11)	-	-	(52,100)	(93)	-	(562)	-	(655)
Foreign currency translation adjustment	-	-	-	-	-	-	119	119
Balance, May 27, 2018	55,756,002	$ 72,343	56,493,584	$ 100,738	$ 78,611	$ 50,341	$ (445)	$ 301,588

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the 13-week periods ended May 27, 2018 and May 28, 2017

(Unaudited, in thousands of Canadian dollars)

	Note	May 27, 2018	May 28, 2017
Operating activities			
Net income for the period		$ 12,290	$ 8,129
Adjustments for:			
Depreciation and amortization		6,031	5,475
Finance expense		1,391	1,266
Stock-based compensation expense	12, 14	3,819	4,667
Amortization of deferred rent		625	2,108
Amortization of deferred lease inducements		(957)	(734)
Unrealized foreign exchange gain on forward contracts	10	(1,184)	(804)
Other		-	(199)
Income tax expense	15	6,005	4,859
Proceeds from deferred lease inducements		2,396	1,207
Cash generated before non-cash working capital balances and interest and income taxes		30,416	25,974
Net change in non-cash working capital balances	19	1,299	(4,547)
Cash generated before interest and income taxes		31,715	21,427
Interest paid		(683)	(1,193)
Income taxes paid		(5,877)	(25,869)
Net cash generated from (used in) operating activities		25,155	(5,635)
Financing activities			
Repayment of lease obligations		(117)	(541)
Proceeds from options exercised	12	463	864
Subordinate voting shares repurchased for cancellation	11	(711)	-
Net cash generated from (used in) financing activities		(365)	323
Investing activities			
Purchase of property and equipment	6	(13,018)	(15,425)
Purchase of intangible assets	6	(2,124)	(1,025)
Net cash used in investing activities		(15,142)	(16,450)
Effect of exchange rate changes on cash and cash equivalents		159	82
Increase (decrease) in cash and cash equivalents		9,807	(21,680)
Cash and cash equivalents - Beginning of period		112,475	79,527
Cash and cash equivalents - End of period		$ 122,282	$ 57,847

Supplemental cash flow information (note 19)

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

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

1 Nature of operations and basis of presentation

Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the "Company") is a vertically integrated design house of exclusive fashion brands. The Company designs apparel and accessories for its collection of exclusive brands and sells them under the Aritzia banner. The Company's assortment of women's fashion apparel and accessories addresses a range of style preferences and lifestyle requirements. As at May 27, 2018, there were 87 retail stores (May 28, 2017 – 81 retail stores).

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

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

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements, with the exception of IFRS 9, "Financial Instruments: Classification and Measurement and Impairment" and IFRS 15, Revenue from Contracts with Customers", as described below. Certain information, in particular the accompanying notes normally included in the audited annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, these 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 25, 2018 ("Fiscal 2018"). These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on July 10, 2018.

Seasonality of interim operations

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Accordingly, quarterly performance is not necessarily indicative of annual performance. Historically, the Company has recognized a significant portion of its operating profit in the third and fourth 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 2018 audited consolidated financial statements, with the exception of the accounting standards adopted in the year ending March 3, 2019 ("Fiscal 2019"). Changes to significant accounting policies are described below.

3 Significant new accounting standards

Standards recently adopted

IFRS 15 – Revenue from Contracts with Customers

Effective in the first quarter of Fiscal 2019, 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 on February 26, 2018 and applied the requirements using the full retrospective approach. The adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements other than on the Company's recognition of its sales return allowance. Under IAS 18, "Revenue", the sales return allowance on the consolidated Statement of Financial Position was recognized on a net basis, with no adjustment to other current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the Statement of Financial Position line items noted below. As the impact is limited to these two financial statement line items, a February 25, 2018 opening Statement of Financial Position has not been presented.

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

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

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

property laws, and recognizes revenue in proportion to actual gift card redemptions as a component of net revenue.

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

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

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

[(1)] Includes current portion of lease obligation

IFRS 9 – Financial Instruments: Classification and Measurement and Impairment

Effective in the first quarter of Fiscal 2019, 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 adopted the standard on February 26, 2018 and applied the requirements retrospectively.

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

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

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

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

principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

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

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss model ("ECL"). This new model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company's accounts receivable balance is primarily comprised of landlord lease inducement receivables. The Company has determined the adoption of IFRS 9 has resulted in no additional recorded impairment allowance for the 13-week period ended May 27, 2018.

Amendments to IFRS 2 – Share-based Payment

Effective in the first quarter of Fiscal 2019, the Company adopted amendments to IFRS 2, issued in June 2016, which clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018. The adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

Standards issued but not yet adopted

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. While the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on the consolidated statement of financial position upon adoption. As a result, the Company expects IFRS 16 to have a fundamental change on the consolidated statements of financial position. The Company will apply the standard for fiscal 2020.

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

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 3 above, as well as note 4 of the Fiscal 2018 audited consolidated financial statements.

5 Inventory

	May 27, 2018	February 25, 2018
Finished goods	$ 65,795	$ 60,385
Finished goods in transit	9,606	18,448
	$ 75,401	$ 78,833

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 $381 for the 13-week period ended May 27, 2018 (May 28, 2017 - $416). No inventory write-downs recorded in previous periods were reversed.

All of the Company's inventory is pledged as security for the Credit Facilities (note 9).

6 Property and equipment and intangible assets

During the 13-week period ended May 27, 2018, the Company had property and equipment additions of $14.7 million, the majority of which were related to leasehold improvements made to its retail stores and the purchase of furniture and equipment for such stores (May 28, 2017 - $13.9 million). During the same period, the Company also had intangible asset additions of $2.4 million, the majority of which were related to internally developed computer software.

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

7 Accounts payable and accrued liabilities

	May 27, 2018	February 25, 2018 (restated – note 3)
Trade accounts payable	$ 40,201	$ 44,141
Other non-trade payables	13,063	7,108
Employee benefits payable	16,058	16,043
	$ 69,322	$ 67,292

8 Other non-current liabilities

	May 27, 2018	February 25, 2018
Deferred lease liability	$ 37,015	$ 37,529
Deferred lease inducements	23,110	20,617
Asset retirement obligations	934	916
Director Deferred Share Unit Program liability (note 12)	654	504
	$ 61,713	$ 59,566

9 Bank indebtedness and long-term debt

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

a) Long-term debt

	May 27, 2018	February 25, 2018
Term loan	$ 118,738	$ 118,738
Less: Deferred financing fees	(120)	(151)
Term loan, net of deferred financing fees	118,618	118,587
Less: Current portion	(118,618)	(19,127)
Long-term debt	$ -	$ 99,460

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 May 27, 2018 and February 25, 2018, the Company was not required to make a mandatory loan prepayment. 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 0.75% and 3.00% (February 25, 2018 – 0.75% and 3.00%).

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

b) Bank indebtedness

As at May 27, 2018, the Company has a revolving credit facility for operations of $70.0 million (February 25, 2018 - $70.0 million). The revolving credit facility bears interest at BA, LIBO or Prime plus a marginal rate between 0.75% and 3.00% (February 25, 2018 – 0.75% and 3.00%). The amount available under the credit facility is reduced by certain open letters of credit (note 17(c)) to $53.8 million (February 25, 2018 – $54.1 million). Up to $5.0 million of the facility can be drawn upon by way of a swingline loan.

At May 27, 2018 and February 25, 2018, no advances were made under this facility.

During the year ended February 25, 2018, the Company entered into a $75.0 million trade finance agreements for letters of credit, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.17% and 2.00%. The amount available under these facilities is reduced by certain open letters of credit (note 17(c)) to $64.5 million (February 25, 2018 - $70.0 million).

The Credit Facilities are collateralized by a first priority lien on all assets, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. At May 27, 2018 and February 25, 2018, the Company was in compliance with all financial covenants.

On June 28, 2018, the Company amended its Credit Facilities with its syndicate of lenders. The amendment agreement ("Amended Credit Facilities") 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 amortization payments. Under the Amended Credit Facilities, the Company has the option to borrow using BA, LIBO, or Prime plus a marginal interest rate between 0.50% and 2.50%. As part of the amendment, the Company made a $43.7 million term loan repayment on June 27, 2018.

10 Derivative financial instruments

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

The amount recorded in the condensed interim consolidated statements of operations in other income relates to the change in fair value of foreign currency forward contracts during the 13-week period ended May 27, 2018, which was a gain of $1.2 million (May 28, 2017 – gain of $0.8 million).

The forward contracts generally have a term of no more than 12 months. The notional amount of these contracts outstanding at May 27, 2018 was $31.0 million U.S. dollars at an average forward rate of 1.2424 (February 25, 2018 - $30.3 million U.S. dollars at an average forward rate of 1.2494).

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

11 Share capital

As at May 27, 2018, there were 55,756,002 multiple voting shares and 56,493,584 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at May 27, 2018.

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. The amounts paid above the average book value of the subordinate voting shares are charged to retained earnings. During the 13-week period ended May 27, 2018, the Company repurchased a total of 52,100 subordinate voting shares for cancellation at an average price of $13.65 per subordinate voting share.

On May 31, 2018, the Company entered into an automated share purchase plan 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. Such purchases are determined by the broker in its sole discretion based on parameters established by the Company.

12 Stock options

Concurrent with its initial public offering ("IPO") in October 2016, the Company amended and restated its Equity Incentive Plan (the "Legacy Plan") to comply with public company provisions as required by the Toronto Stock Exchange and implemented a new stock option plan (the "2016 Option Plan"). In addition, the Company adopted a Director Deferred Share Unit Program for non-employee board members.

Legacy Plan

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

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

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

	For the 13-week periods ended			
	May 27, 2018		May 28, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	7,748,370	$ 4.09	11,288,672	$ 3.82
Exercised	(270,343)	1.72	(271,312)	3.19
Forfeited	(32,686)	5.81	(23,726)	6.30
Outstanding, at end of period	7,445,341	$ 4.17	10,993,634	$ 3.83

Stock-based compensation expense in relation to the options under the Legacy Plan for the 13-week period ended May 27, 2018 was $1.1 million (May 28, 2017 – $2.3 million).

2016 Option Plan

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

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

	For the 13-week periods ended			
	May 27, 2018		May 28, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	4,947,348	$ 14.80	3,263,759	$ 16.12
Granted	60,944	12.99	454,226	14.20
Forfeited	(28,259)	13.27	(36,607)	16.29
Outstanding, at end of period	4,980,033	$ 14.79	3,681,378	$ 15.88

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

The weighted average fair value of the time-based stock options granted during the 13-week period ended May 27, 2018 was estimated at the date of grant based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	41.0%
Risk-free interest rate	2.3%
Expected life	6.0 years
Exercise price	$12.99

Stock-based compensation expense in relation to the options under the 2016 Option Plan for the 13-week period ended May 27, 2018 was $2.6 million (May 28, 2017 – $2.3 million).

Director Deferred Share Unit Program

Each eligible director receives a portion of his or her annual director retainer in deferred share units ("DSUs"). DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. DSUs are granted quarterly and the Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was $0.7 million at May 27, 2018, with an expense of $0.1 million for the 13-week period ended May 27, 2018 (May 28, 2017 – $0.1 million), recorded as stock-based compensation expense.

13 Net income per share

a) Basic

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

	13-week periods ended	
	May 27, 2018	**May 28, 2017**
Net income attributable to shareholders of the Company	$ 12,290	$ 8,129
Weighted average number of shares outstanding during the period *(thousands)*	112,120	108,883
Basic net income per share	$ 0.11	$ 0.07

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

b) Diluted

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

	13-week periods ended	
	May 27, 2018	**May 28, 2017**
Net income attributable to shareholders of the Company	$ 12,290	$ 8,129
Weighted average number of shares for net income per diluted share *(thousands)*	116,780	116,375
Net income per diluted share	$ 0.11	$ 0.07

14 Expenses by nature

	Cost of goods sold	
	13-week periods ended	
	May 27, 2018	**May 28, 2017**
Inventory and product-related costs and occupancy costs	$ 94,607	$ 83,199
Depreciation expense	4,861	4,309
	$ 99,468	$ 87,508

	Personnel expenses	
	13-week periods ended	
	May 27, 2018	**May 28, 2017**
Salaries, wages and employee benefits	$ 38,121	$ 35,518
Stock-based compensation expense	3,819	4,667
	$ 41,940	$ 40,185

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

	Finance expense	
	13-week periods ended	
	May 27, 2018	May 28, 2017
Interest expense and banking fees	$ 1,349	$ 1,218
Amortization of deferred financing fees	42	48
	$ 1,391	$ 1,266

15 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week period ended May 27, 2018 is 26.9% (May 28, 2017 – 26.4%). The Company's effective income tax rate for the 13-week period ended May 27, 2018 is 32.8% (May 28, 2017 – 37.4%).

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 net revenue by geographic location of customers:

	13-week periods ended	
	May 27, 2018	May 28, 2017
Canada	$ 112,382	$ 99,693
United States	54,629	45,353
	$ 167,011	$ 145,046

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

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

	May 27, 2018	February 25, 2018
Canada	$ 299,411	$ 291,270
United States	61,864	57,471
	$ 361,275	$ 348,741

17 Commitments and contingencies

a) Operating leases

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

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

Less than 1 year	$ 83,644
Between 1 and 5 years	338,381
More than 5 years	285,524
Total	$ 707,549

Subsequent to period end, the Company entered into additional operating leases, increasing the total minimum lease commitments by $1.1 million (excluding other occupancy charges and additional rent based on percentage of sales).

b) Purchase obligations

At May 27, 2018, the Company had purchase obligations of $22.7 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 May 27, 2018, the Company had open letters of credit of $26.7 million (February 25, 2018 - $20.9 million).

18 Related party transactions

The Company is ultimately controlled by Canada Retail Holdings, L.P., also being the Company's ultimate parent. The Company entered into the following transactions with related parties:

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

a) Berkshire Partners LLC ("Berkshire") is the investment manager to private equity funds that indirectly hold an ultimate controlling interest in the Company.

Total net reimbursements to Berkshire for travel, lodging and other costs for the 13-week period ended May 27, 2018 were $13 (May 28, 2017 - $21). At May 27, 2018, $nil was included in accounts payable and accrued liabilities (February 25, 2018 – $66).

In connection with its IPO, the Company reimbursed in aggregate $1.4 million in professional fees and other costs to the principal selling shareholders in accordance with the Company's obligations under the registration rights agreement. At May 27, 2018, $662 was included in accounts payable and accrued liabilities (February 25, 2018 - $652).

b) During the 13-week period ended May 27, 2018, the Company paid $1,126 (May 28, 2017 - $746) for rent of premises and $223 (May 28, 2017 - $nil) for the use of a leased asset wholly or partially owned by companies that are owned by a director and officer of the Company. At May 27, 2018, $63 was included in accounts payable and accrued liabilities (February 25, 2018 - $100).

c) During the 13-week period ended May 28, 2017, the Company purchased $3.9 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:

	13-week periods ended	
	May 27, 2018	**May 28, 2017**
Salaries, directors' fees and short-term benefits	$ 758	$ 763
Stock-based compensation expense	1,011	1,512
	$ 1,769	$ 2,275

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

19 Supplemental cash flow information

	13-week periods ended	
	May 27, 2018	**May 28, 2017** (restated – note 3)
Net change in non-cash working capital balances		
Accounts receivable	$ 186	$ (209)
Prepaid expenses and other current assets	368	1,139
Inventory	3,807	300
Other assets	(42)	96
Accounts payable and accrued liabilities	(3,336)	(5,471)
Deferred revenue	316	(402)
	$ 1,299	$ (4,547)
Supplemental cash flow information		
Accrued purchases of property and equipment	$ 8,347	$ 4,439
Accrued purchases of intangible assets	576	984