

ARITZIA

Annual Report 2020



Aritzia is a
vertically integrated,
innovative design
house and fashion boutique.

We believe in high-quality, beautifully designed product.
We believe in aspirational environments and experiences.
We believe in personalized and knowledgeable client service.
And we believe that all of this should be attainable.

We call this Everyday Luxury.

From our Founder, Chief Executive Officer & Chairman



TO MY FELLOW SHAREHOLDERS,

This year we celebrated Aritzia's 35th anniversary. Throughout our history, we have delivered our clients everyday luxury through exceptional service, beautiful product, aspirational environments in stores and online, with captivating communications throughout. Since opening our first boutique in Vancouver's Oakridge Mall in 1984, our net revenues have grown to nearly \$1 billion. This has been driven by our growth to 96 boutiques across Canada and the United States and our accelerating ecommerce business. We now have over 3500 employees, and serve millions of clients annually. As we reflect on this journey, I am incredibly proud of what we have achieved; a foundation built to capture the limitless opportunities that lay ahead.

FISCAL 2020 HIGHLIGHTS

Every year at this time, I have the responsibility and privilege of looking back over our successes and more broadly our strengths, weaknesses, opportunities, and threats. Fiscal 2020 concluded another exceptional year for Aritzia. We delivered same-store sales increases in both Canada and the United States and continued accelerated growth in eCommerce, closing the year with our 22nd consecutive quarter of comparable sales growth. In line with our five-year target, we opened five boutiques in the United States and expanded three boutiques in Canada. In product, we saw exceptionally strong sales across all brands and categories while successfully launching a new brand, Ten by Babaton. And, we expanded our Super Puff™ program with Mr. Super Puff - our first and highly successful foray into menswear. During the year, our brand awareness also grew through engaging and innovative marketing campaigns including an enviable list of paid and unpaid influencers. We are particularly pleased with the momentum of our brand in the United States where we finished the year with revenue growth of 27%.

To support our growth, we continued to hire top talent from around the globe, building on our world-class team. And, we further invested in our technology infrastructure, including a new marketing platform enabling advanced client communications, a customer 360 repository giving us a significantly more comprehensive view of our clients, and Concierge technology that expanded our call center servicing capabilities.

The Aritzia team and I could not be more pleased that we delivered yet another strong year nor more confident in our potential. Our consistent performance reflects Aritzia's growing brand awareness and affinity in the United States, enduring customer loyalty in Canada, commitment to continued business and infrastructure investments, and our ability to execute on our powerful business model.

COVID-19 RESPONSE

As we entered fiscal 2021, and on the heels of last year's success, we have been navigating through the global pandemic of COVID-19. The impact of the virus on the global economy has put an unprecedented amount of pressure on businesses all over the world. Although some sectors are largely immune, the fashion business is not. As COVID-19 spread across North America, we experienced a meaningful decline in our sales in the first two weeks of March, before temporarily closing all 96 of our boutiques.

Over the past several months our teams have been working tirelessly in response to the dynamic nature of the pandemic. Our priority, from the beginning of this crisis, was to protect the health and safety of our people, our clients and our communities. Upon the closure of our boutiques, we took immediate action to drive eCommerce revenue, adjusting our product, marketing, and operational strategies appropriately. Despite the challenges, our beautiful product assortment, best-in-class Distribution Centre, aspirational website, and response from our loyal clientele lead to eCommerce growth in excess of 150% through the end of May.

As numerous companies were forced to lay off and furlough millions of employees across North America, we worked hard to keep our people employed. Thanks to the dedication of our team and our loyal clientele who continued to purchase with us online, we paid out \$20 million in salaries to non-working employees through the Aritzia Community™ Relief Fund. To show our heartfelt gratitude for those on the virus' frontline, we launched our Aritzia Community™ Care Program, gifting 100,000 frontline healthcare workers in Canada and the U.S. with custom clothing packages, over \$10 million in retail value.

We began a phased reopening of our boutiques on May 7th, with almost all of our boutiques reopened to date. We recognized, upon temporarily closing our boutiques, that significant changes to our in-store experience would be required in response to COVID-19. This has included reduced boutique capacity, physical distancing protocols, new health and sanitization standards, an upgraded cleaning program, and dedicated Health and Safety Advisors on site. Since we

began reopening our clients have shown excitement to return to shopping in our boutiques, reconnecting with their style advisors, and enjoying the exceptional service and Everyday Luxury experience they love and expect from us. While we are not yet able to maximize the demand for in-store shopping due to the health and safety measures we have put in place, we are both encouraged and reassured by our clients return.

In addition to our COVID-19 response, the past few months have seen businesses across the globe be called upon to lead and be allies of the social justice and racial equality movement. This deserves our attention, our support, and significant action. Aritzia continues our support through external donations and more importantly, by investing \$1 million in our own Diversity and Inclusion program to effect meaningful change from within.

Over the past few months, our processes and systems have been tested, and our people challenged and stretched to new levels of performance. Our team's resilience and creative efforts have preserved our strong financial position and successfully safeguarded our business. The closure of all our boutiques for most of the first quarter of fiscal 2021, and the corresponding decline in our revenues and our profitability has been the most challenging period of our history, yet it has also been a time of tremendous learning and growth and is presenting us with new compelling opportunities.

LOOKING FORWARD

Although we have earned a unique loyalty in our clients' closets, we have shared some of that coveted space with others. As a result of the pandemic's devastating impact on many businesses, many brands we shared her closet will either not exist or will be a fraction of their size and scope. The pandemic has not only brought about change to the competitive landscape moving forward, it has also accelerated the shift to the omni-channel shopping experience. With the closures of our boutiques, our clients immediately and seamlessly shifted from retail to online. Now that our boutiques have reopened, our clients have enthusiastically returned, while also continuing to shop online. This multi-channel client relationship presents boundless opportunity to continue to drive revenue both in out boutiques and online.

ECOMMERCE GROWTH

We continue to invest in compelling and innovative functionality on aritzia.com, rollout our new Clientele App (a digital selling tool used by style advisors across our boutique network), and expand our omni-channel capabilities. We have been building our digital capabilities for several years and are well positioned to capitalize on our accelerating eCommerce business.

NEW BOUTIQUE OPENINGS

We are progressing with our pre-COVID boutique opening plans. Our boutiques continue to be highly profitable as well as our most effective marketing tool to grow brand awareness and, with many in North America shuttering

boutiques, the real estate opportunities and corresponding financial terms are unprecedented. As we are currently understored, with more premier locations becoming available, we will continue to explore and capture new opportunities in prime real estate.

PRODUCT EXPANSION

Prior to COVID-19, our boutiques comprised approximately 77% of our sales, and our entire product strategy was based on physical and merchandising limitations of our retail four-walls. Now, our eCommerce channel has achieved a critical mass such that our product strategies can be based on the unlimited opportunities of the online environment. Specifically, we are in an unprecedented position to significantly expand our product lines in depth sizes, lengths, colours), breadth (new style development), and new categories (such as swim, intimates, bags, shoes, and beauty). We have started to build the infrastructure of people, processes, and technology to capitalize on this incredibly exciting product expansion opportunity.

TALENT ACQUISITION

As the industry is contracting, we are also capitalizing on the availability of world-class talent at all levels. Between the continuation of employment of all of our people, our community outreach, and our growing brand awareness as a fashion retailer with a compelling future, more top tier talent are attracted to us now than I have seen in my entire career.

Although the retail landscape for the remainder of the year and possibly the beginning of the next remains uncertain, our future is rich with potential. We had planned this year to release new corporate goals having just successfully reached the end of our previous five-year plan. Albeit a fluid process given it is unclear what the next couple of years will bring, we are confident we can maintain our ambitious five-year goals and will provide an updated plan in due course.

The pandemic has unquestionably had a major impact, and the learnings and opportunities created have been invaluable. I remain grateful and humbled by the entire Aritzia team working diligently together to support each other, to serve our clients and to drive our strategies forward. They are, without a doubt, some of the best in the business. With product expansion through a rapidly growing eCommerce channel, the deepening of our omni-channel capabilities, bringing Aritzia to new premier locations or further strengthening our team with top new talent, there is much to look forward to in the year ahead.

Sincerely,

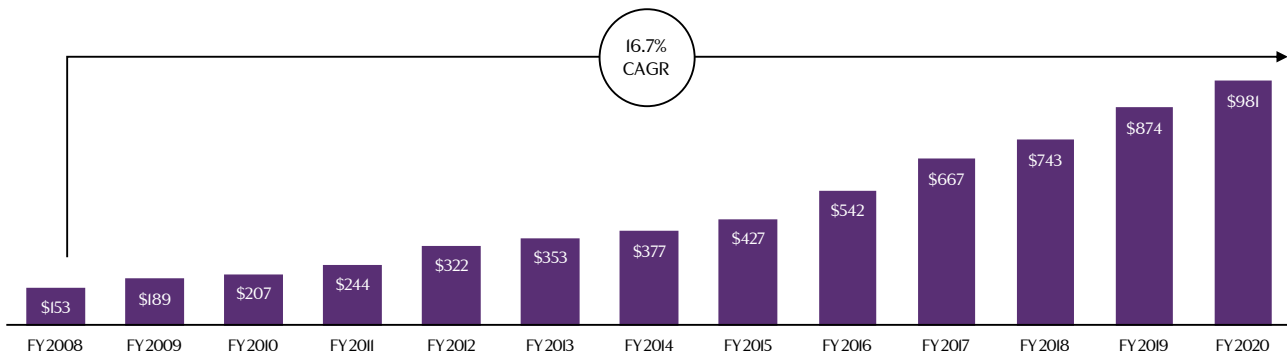


Brian Hill
Founder, Chairman and CEO

A Record of Consistent Growth

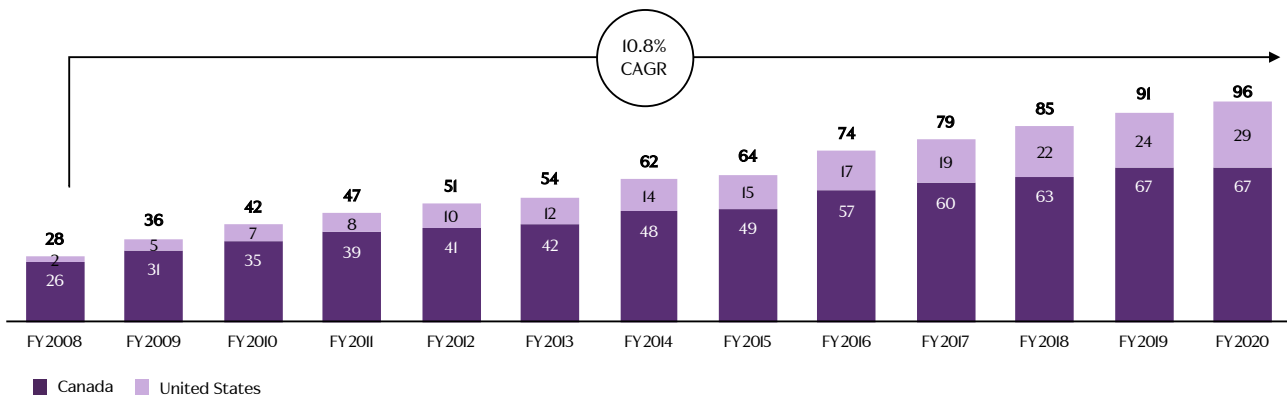
Net Revenue Growth (C\$ millions)

We attribute our proven track record of consistent growth to our distinct market position, operational excellence and relentless focus on long term objectives.



Measured Boutique Growth

We have never permanently closed an Aritzia store in our 35-year history – a testament to our disciplined and measured store-growth strategy.



A Portfolio of Exclusive Fashion Brands

We conceive, create and develop our own brands and sell them under the Aritzia banner. Approaching each brand as an independent label with its own vision and distinct aesthetic. Our multi-brand strategy enables us to appeal to our clients across multiple aspects of their lifestyles and life stages, producing strong and enduring client loyalty. Exclusive brands currently represent over 95% of Aritzia's net revenue.

<p>wilfred</p> <p>Spring 2006</p>	<p>wilfred free</p> <p>Spring 2009</p>	<p>le fou wilfred</p> <p>Fall 2009</p>
<p>BABATON</p> <p>Fall 1994</p>	<p>BABATON —O </p> <p>Winter 2015</p>	<p>The Group BABATON</p> <p>Fall 2016</p>
<p>TEN BY BABATON</p> <p>Fall 2019</p>	<p>Tna</p> <p>Fall 1997</p>	<p>Community</p> <p>Fall 2006</p>
<p>DENIM FORUM</p> <p>Fall 2018</p>	<p>little moon</p> <p>Spring 2017</p>	<p>SUNDAY BEST</p> <p>Fall 2017</p>

Differentiated Global Sourcing Strategy

We have a differentiated global-sourcing strategy that allows us to continually refine our supply chain, elevating our product, increasing the value to our customer and growing our gross margin. Our product teams plan, develop and design our seasonal collections, then partner directly with our mills, our suppliers and our manufacturers to deliver exceptional value at attainable price points.



Innovative Creative Development

Our innovative creative development covers our product, our boutiques, our website, and our marketing and communications. Our innovative design house offering a strategic mix of exclusive brands, combined with a refined and proven merchandise strategy, ensures that we provide the balanced assortment of high quality, beautifully designed and constructed products that our clients desires. Our boutiques and website deliver on both form and function, creating an aspirational shopping environment. Our communications and marketing strategies are brand propelling and sales driving through both traditional and digital channels.



Aspirational Omni-Channel Shopping Experience

We offer our products through a seamless omni-channel approach and delight our clients with an aspirational shopping experience, both in our premier real estate locations and on aritzia.com. We focus on every detail of delivering exceptional service no matter where our clients choose to shop our brand.

Boutiques

We have developed our boutique network in a measured and disciplined manner. We have a portfolio of boutiques situated in premier real estate locations in high performing retail malls and high streets in North America. Our strong boutique sales productivity continues to make us a sought-after tenant for top quality locations in premier shopping destinations. As a result of our disciplined real estate selection process and compelling boutique economics, we have never permanently closed an Aritzia boutique in our 35-year history. As of July 9, 2020, we operate 68 boutiques in Canada and 29 boutiques in the United States.

eCommerce

aritzia.com is a continually evolving digital representation of our brand. It is designed to facilitate an inspired user experience across any device, through aspirational aesthetics and intuitive user interface, while celebrating our creativity, innovation and design.

We've created a synergistic relationship between our boutique network and aritzia.com, with the success of each channel benefitting the other through increased brand awareness and affinity. We continue to expand our omni-channel capabilities to elevate our clients' shopping experience allowing them to shop when they want and how they want.



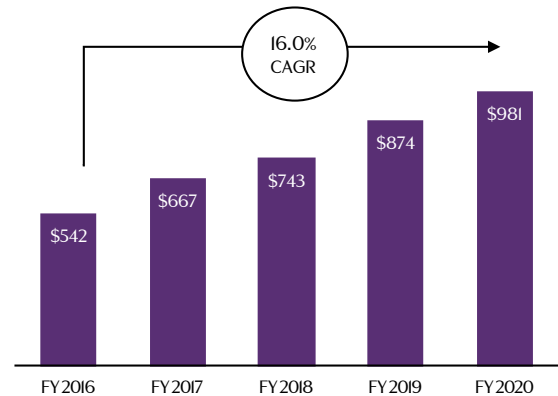


Selected Financial Metrics

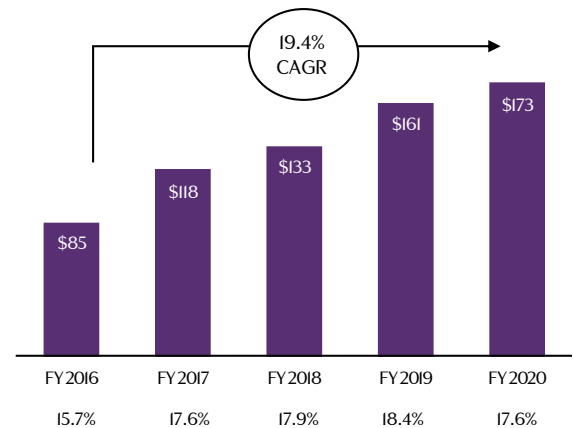
Our proven business model and long-term approach to managing our business have contributed to strong and consistent financial performance.

- A materiality assessment of our operations, including supply chain partners. 7.6% comparable sales growth in Fiscal 2020, following 9.8% in Fiscal 2019.
- 22 consecutive quarters of positive comparable sales growth with continued strong momentum from our eCommerce business.

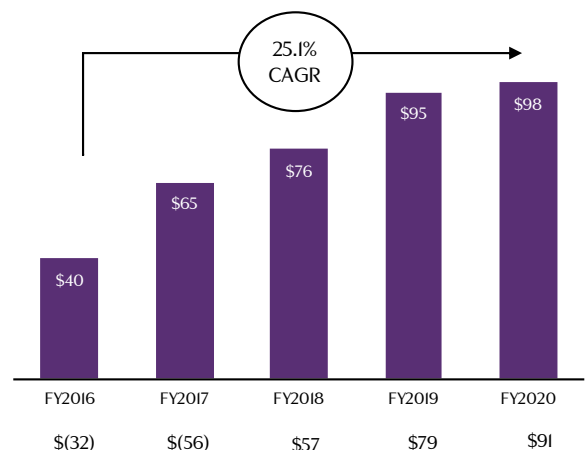
Net Revenue (C\$ millions)



Adjusted EBITDA² (C\$ millions)



Adjusted Net Income² (C\$ millions)



1. In addition to using financial measures prescribed under International Financial Reporting Standards ("IFRS"), this annual report makes reference to certain non-IFRS measures, including certain retail industry metrics. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Please refer to the section entitled "Non-IFRS Measures Including Retail Industry Metrics" in the Management's Discussion & Analysis within this Annual Report for a discussion of the definitions, components, reconciliations, and use of these measures

2. Figures adjusted to exclude stock-based compensation, unrealized FX (gains) losses on forward contracts, IPO and Secondary Costs, and a lease exit cost in Fiscal 2019.

Operational and Financial Highlights

(in thousands of Canadian dollars, unless otherwise noted)

	Fiscal 2020 52 weeks			Fiscal 2019 53 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks
	As reported (IFRS 16)	IFRS 16 adoption impact	Excluding IFRS 16 ⁽¹⁾	As reported (IAS 17)			
Consolidated Statements of Operations:							
Net revenue	\$ 980,589	\$ -	\$ 980,589	\$ 874,296	\$ 743,267	\$ 667,181	\$ 542,463
Cost of goods sold	577,165	23,034	600,199	531,383	447,776	401,658	344,095
Gross profit	403,424	(23,034)	380,390	342,913	295,491	265,523	198,368
Operating expenses							
Selling, general and administrative	243,362	416	243,778	215,297	183,857	178,773	135,111
Stock-based compensation expense	7,790	-	7,790	11,540	17,240	103,044	10,651
Income (loss) from operations	152,272	(23,450)	128,822	116,076	94,394	(16,294)	52,606
Finance expense	28,319	(23,763)	4,556	4,821	5,221	10,455	10,995
Other (income) loss	(2,185)	-	(2,185)	(395)	1,890	(1,362)	(3,512)
Income (loss) before income taxes	126,138	313	126,451	111,650	87,283	(25,387)	45,123
Income tax expense	35,544	87	35,631	32,922	30,190	30,722	12,751
Net income (loss)	\$ 90,594	\$ 226	\$ 90,820	\$ 78,728	\$ 57,093	\$ (56,109)	\$ 32,372
Percentage of Net Revenue:							
Net revenue	100.0%		100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	58.9%		61.2%	60.8%	60.2%	60.2%	63.4%
Gross profit	41.1%		38.8%	39.2%	39.8%	39.8%	36.6%
Operating expenses							
Selling, general and administrative	24.8%		24.9%	24.6%	24.7%	26.8%	24.9%
Stock-based compensation expense	0.8%		0.8%	1.3%	2.3%	15.4%	2.0%
Income (loss) from operations	15.5%		13.1%	13.3%	12.7%	(2.4%)	9.7%
Finance expense	2.9%		0.5%	0.6%	0.7%	1.6%	2.0%
Other (income) loss	(0.2%)		(0.2%)	(0.0%)	0.3%	(0.2%)	(0.6%)
Income (loss) before income taxes	12.9%		12.9%	12.8%	11.7%	(3.8%)	8.3%
Income tax expense	3.6%		3.6%	3.8%	4.1%	4.6%	2.4%
Net income (loss)	9.2%		9.3%	9.0%	7.7%	(8.4%)	6.0%
Other Performance Measures:							
Year-over-year net revenue growth	12.2%		12.2%	17.6%	11.4%	23.0%	26.9%
Comparable sales growth	7.6%		7.6%	9.8%	6.6%	14.1%	16.8%
Free cash flow	\$ 117,246		\$ 117,246	\$ 38,874	\$ 44,342	\$ 87,924	\$ 39,153
Capital cash expenditures (excluding proceeds from leasehold inducements)	\$ 47,790		\$ 47,790	\$ 62,010	\$ 66,330	\$ 31,136	\$ 28,183
Number of boutiques, end of period	96		96	91	85	79	74
New boutiques added	5		5	7	6	5	10
Boutiques expanded or repositioned ⁽²⁾	3		3	3	7	5	2

Note:

⁽¹⁾ Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

⁽²⁾ Q4 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

Sustainability

OUR PHILOSOPHY

Delivering quality product that endures well beyond one or two seasons is central to our business model and the right choice for our planet.

Yet we know this is no longer enough. Environmental and social issues are at a critical turning point. We all have to come together to do what we can to make a meaningful impact.

As a leader in an industry we know can make a difference, we have a responsibility to do right by people and the planet. So we're working to extend our sustainability programs and accelerate our progress.

The challenge is that sustainability issues are complicated. It's not always clear what the right thing to do is, and far too often we find companies greenwashing without making any real progress, or making matters worse. We feel that our community deserves better from us. So we're doing our best to really understand the issues and share the facts with you, as transparently as possible, as we continue on this journey.

Our commitment is that we won't do anything we don't believe in.

OUR APPROACH

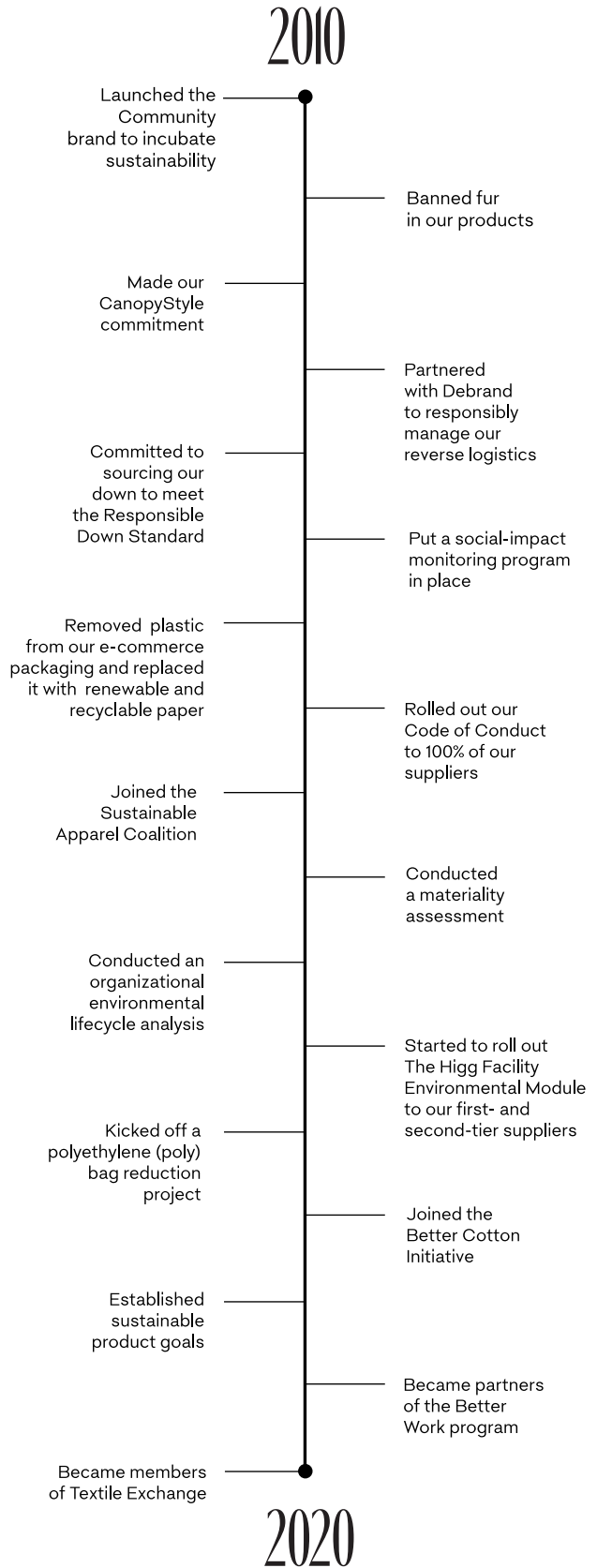
To do this, we have taken an evidence-based approach to sustainability, with a focus on driving long-term impact. The steps we are taking are simple:

1. UNDERSTAND our Social and Environmental impact
2. IDENTIFY opportunities for improvements both short and long term
3. ACTION positive and meaningful change
4. Build a Roadmap for the future

UNDERSTAND OUR IMPACT

We began by taking a hard look at what we've done over the last ten years.

What we learned is that while we had made progress in some areas, there were gaps in our understanding of, and overall impact on, others.



In 2017, we conducted a more comprehensive assessment of our business to benchmark our social and environmental risks and impacts. This analysis included three areas we felt we needed to look closer at:

- A materiality assessment of our operations, including supply chain partners.
- A labour and human rights assessment of our global supply chain.
- An Environmental Organizational Lifecycle Assessment (OLCA) for emissions, water use and waste generation.

THE O-LCA IMPACT

The O-LCA technique quantitatively assesses environmental impacts (emissions, water use and waste) for all stages of the organization’s product and operations. This chart is illustrative of the impacts of the fashion industry as a whole (see below).

IDENTIFY OPPORTUNITIES AND ACTION CHANGE

Results from the assessments have provided us with a fairly clear view of our impact and the beginnings of a path forward. We have a dedicated team of sustainability experts accountable for determining our impacts, developing targets and roadmaps and partnering with all our divisions to deliver change across our business.

PRODUCT

From safeguarding Human Rights in our factories and decreasing water usage in our production processes to increasing the adoption of more sustainable raw materials, we’ve put meaningful effort against improving the sustainability of our products.

OPERATIONS

Beyond our product, reducing our emissions, waste and packaging impacts within our operations is critical to the health of the planet and we’ve made exciting progress.

COMMUNITY

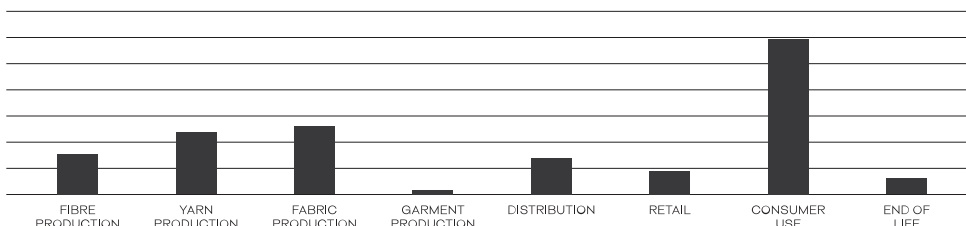
We continue growing our giving program with a focus on creating opportunity for women and girls. As we progress, we are ensuring Diversity and Inclusion are central tenants for our People and our Customers, while also ensuring we support those women who need us most.

BUILD A ROADMAP FOR THE FUTURE

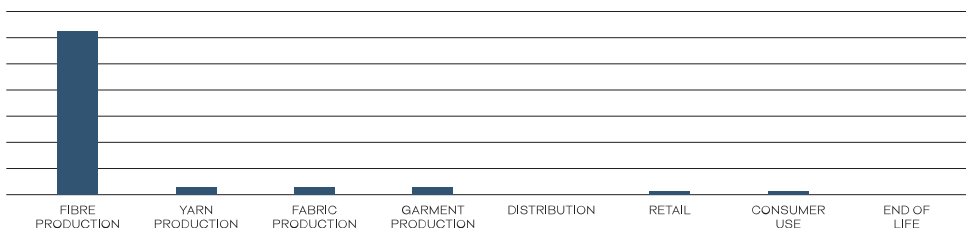
We’re committed to implementing real change and to transparently share our progress and areas of improvement along the way. For further details on our program, please visit: <https://www.aritzia.com/en/aritzia/corporate-responsibility/sustainability.html>



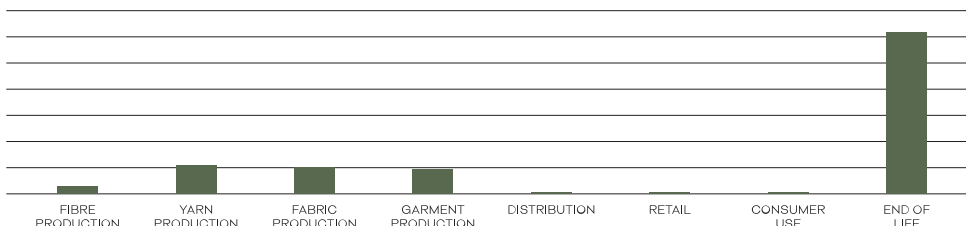
CARBON IMPACTS



WATER CONSUMPTION



WASTE GENERATION



Management's Discussion & Analysis



ARITZIA

Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended March 1, 2020

May 28, 2020

The following Management's Discussion and Analysis ("MD&A") dated May 28, 2020 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Aritzia Inc. (together with its consolidated subsidiaries, referred to herein as "Aritzia", the "Company", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and fiscal year ended March 1, 2020. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for Fiscal 2020 (as hereinafter defined).

Basis of Presentation

Our audited annual consolidated financial statements and unaudited condensed interim consolidated financial statements (together, the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. They reflect the adoption of IFRS 16, Leases, on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. Please see "Recent Events – Adoption of IFRS 16". All amounts are presented in thousands of Canadian dollars unless otherwise indicated. We manage our business on the basis of one operating and reportable segment.

All references in this MD&A to "Q4 2020" are to our 13-week period ended March 1, 2020, to "Q4 2019" are to our 14-week period ended March 3, 2019 and to "Q1 2021" are to our 13-week period ending May 31, 2020. All references in this MD&A to "Fiscal 2020" are to our 52-week period ended March 1, 2020, to "Fiscal 2019" are to our 53-week period ended March 3, 2019 and to "Fiscal 2021" are to our 52-week period ending February 28, 2021.

The audited annual consolidated financial statements and accompanying notes for Fiscal 2020 and this MD&A were authorized for issue by the Company's Board of Directors.

Non-IFRS Measures Including Retail Industry Metrics

This MD&A makes reference to certain non-IFRS measures including certain retail industry metrics. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per diluted share", "free cash flow" and "gross profit margin". To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020 and Fiscal 2020 has been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16. This MD&A also makes reference to "comparable sales growth", which is a commonly used operating metric in the retail industry but may be calculated differently compared to other retailers. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. These non-IFRS measures, including retail industry metrics, are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures, including retail industry metrics, in the evaluation of issuers. Our management also uses non-IFRS measures, including retail industry metrics, in order to facilitate

operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see the “How We Assess the Performance of Our Business” and “Selected Consolidated Financial Information” sections of this MD&A.

Forward-Looking Information

Certain statements made in this MD&A may constitute forward-looking information under applicable securities laws. These statements may relate to our future financial outlook and anticipated events or results and include, but are not limited to, expectations regarding our ability to reopen the remainder of our boutiques and our support office and the results therefrom, our anticipated net revenue, Adjusted EBITDA, cash and cash equivalents and inventory and growth in eCommerce revenue for the first quarter of Fiscal 2021, the number of new and repositioned boutiques during the remainder of Fiscal 2021, our plans to right-size our infrastructure, our plans to amend our ASPP (as hereinafter defined), the expected results of our planned multi-year Customer Program initiative and product lifecycle management system, our ability to expand our talent pool. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “believe”, “estimate”, “plan”, “could”, “should”, “would”, “outlook”, “forecast”, “anticipate”, “foresee”, “continue” or the negative of these terms or variations of them or similar terminology.

Given this unprecedented period of uncertainty, there can be no assurances regarding: (a) the timing of reopening boutiques in each province/state, the limitations or restrictions that may be placed on servicing our clients or potential re-closing of boutiques; (b) the COVID-19-related impacts on our business, operations, supply chain performance and growth strategies, (c) our ability to mitigate such impacts, including ongoing measures to enhance short-term liquidity, contain costs and safeguard the business; (d) our ability to open 5-6 boutiques and repositioning of 3-4 existing locations during the remainder of fiscal 2021; (e) general economic conditions related to COVID-19 and impacts to consumer discretionary spending and shopping habits; (f) credit, market, currency, interest rates, operational, and liquidity risks generally; and (g) other risks inherent to our business and/or factors beyond its control which could have a material adverse effect on the Company.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the “Risk Factors” section of this MD&A and in the Company’s annual information form dated May 28, 2020 for Fiscal 2020 (the “AIF”). A copy of the AIF and the Company’s other publicly filed documents can be accessed under the Company’s profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com.

The Company cautions that the list of risk factors and uncertainties described in the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

Overview

Aritzia is an innovative design house and fashion boutique. We conceive, create, develop and retail fashion brands with a depth of design and quality that provides compelling value. Each of our exclusive brands has its own vision and distinct aesthetic point of view. As a group, they are united by an unwavering commitment to superior fabrics, meticulous construction and relevant, effortless design.

Founded in Vancouver in 1984, Aritzia now has more than 95 locations in select cities across North America, including Vancouver, Toronto, Montreal, New York, Los Angeles, San Francisco and Chicago. We pride ourselves on creating immersive, human and highly personal shopping experiences, both in our boutiques and on *aritzia.com* — with a focus on delivering Everyday Luxury.

We connect our clients to the energy of our culture through the products we sell and the environments we create. As of the date of this MD&A, we operate 68 boutiques in Canada and 29 boutiques in the United States, averaging approximately 6,000 square feet, all of which are in premier locations within top-tier shopping destinations. We sell our products through our boutiques and *aritzia.com*, giving us complete control of the presentation of our brand and the relationships with our clients. This strategy allows us to present our brand in a consistent manner, including pricing, marketing and product merchandising. We strive to offer our clients an aspirational omni-channel shopping experience and exceptional service at every interaction. Our culture is highly focused on the client, and our style advisors are trained to provide shopping experiences that are personalized to exceed our clients' wants and needs.

Recent Events

Secondary Offering and Share Repurchase

On March 8, 2019, we completed a secondary offering (the "March 2019 Secondary Offering") on a bought deal basis of our subordinate voting shares through a secondary sale of shares by certain shareholders. The March 2019 Secondary Offering of 19,505,000 subordinate voting shares raised gross proceeds of \$329.6 million for the selling shareholders, at a price of \$16.90 per subordinate voting share (the "March 2019 Offering Price"). We did not receive any proceeds from the March 2019 Secondary Offering. Underwriting fees were paid by the selling shareholders.

Concurrent with the completion of the March 2019 Secondary Offering, on March 8, 2019, we also completed a repurchase of 6,333,653 subordinate voting shares and multiple voting shares (the "Shares") for cancellation from certain shareholders, including an investment vehicle (the "Berkshire Shareholder") managed by Berkshire Partners LLC ("Berkshire") (the "Share Repurchase"). The purchase price per Share paid by us under the Share Repurchase was the same as the March 2019 Offering Price and resulted in an aggregate purchase price of \$107.0 million paid to the selling shareholders. Total expenses related to the March 2019 Secondary Offering and Share Repurchase of \$2.5 million were paid by us and were reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder.

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder has no remaining equity interest in us.

Normal Course Issuer Bid

On July 11, 2019, we announced the commencement of a normal course issuer bid ("NCIB") to purchase and cancel up to 3,624,915 subordinate voting shares over the 12-month period commencing July 16, 2019 and ending July 15, 2020. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. During Fiscal 2020, we repurchased 32,600 subordinate voting shares for cancellation at an average price of \$15.97 per subordinate voting share, for total cash consideration of \$0.5 million (during Fiscal 2019, we repurchased 549,880 subordinate voting shares for cancellation at an average price of \$17.07 per subordinate voting share, for total cash consideration of \$9.4 million).

On August 30, 2019, we entered into an automatic share purchase plan ("ASPP") with a designated broker for the purpose of permitting us to purchase our subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by us under the ASPP. All purchases made under the ASPP will be included in computing the number of subordinate voting shares purchased under the NCIB. We record a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP. At March 1, 2020, no such liability was recorded.

Subsequent to the year ended March 1, 2020, we repurchased 38,664 subordinate voting shares for cancellation at an average price of \$13.51 per subordinate voting share, for total cash consideration of \$0.5 million, under the terms of the ASPP.

On March 17, 2020, we amended the ASPP under the NCIB such that the then authorized trading window ended March 17, 2020. We are further amending the ASPP such that no additional trading windows will be authorized, which effectively terminates any further purchases under the ASPP. In connection with this amendment, effective as of the date hereof, we made a representation to our Canadian broker administering the plan that we do not possess knowledge of any material fact or material change about the Company, our subordinate voting shares or any of our other securities that has not been generally disclosed.

Adoption of IFRS 16

We adopted IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases (“IAS 17”) and related interpretations, using the modified retrospective approach, effective for the annual reporting period beginning on March 4, 2019. As a result, our results for Q4 2020 and Fiscal 2020 reflect lease accounting under IFRS 16. Comparative figures for Q4 2019 and Fiscal 2019 have not been restated and continue to be reported under IAS 17.

Our financial reporting is impacted by the adoption of IFRS 16. Certain lease-related expenses previously recorded as occupancy costs are now recorded as depreciation expense for right-of-use assets and as interest expense for related lease liabilities. The depreciation expense is recognized on a straight-line basis over the term of the lease, while the interest expense declines over the life of the lease, as the liability is paid off.

For analysis purposes only, this MD&A also shows, where applicable, amounts for the Q4 2020 and Fiscal 2020 as if we continued to report under IAS 17, and did not adopt IFRS 16.

<i>(in thousands of Canadian dollars, unless otherwise noted)</i>	Q4 2020 13 weeks As reported (IFRS 16)	Q4 2020 13 weeks Excluding IFRS 16⁽¹⁾	Q4 2019 14 weeks As reported (IAS 17)	Change
	(A)	(B)	(C)	(B) - (C)
Gross profit	\$ 102,841	\$ 97,103	\$ 93,847	\$ 3,256
<i>As a percentage of net revenue</i>	37.3%	35.3%	36.2%	(0.9%)
SG&A	\$ 64,331	\$ 64,452	\$ 59,349	\$ 5,103
<i>As a percentage of net revenue</i>	23.4%	23.4%	22.9%	0.5%
Adjusted EBITDA ⁽²⁾	\$ 42,375	\$ 42,375	\$ 42,568	(\$ 193)
<i>As a percentage of net revenue</i>	15.4%	15.4%	16.4%	(1.0%)
Adjusted Net Income	\$ 23,428	\$ 23,433	\$ 25,072	(\$ 1,639)
<i>As a percentage of net revenue</i>	8.5%	8.5%	9.7%	(1.2%)
Adjusted Net Income per Diluted Share	\$ 0.21	\$ 0.21	\$ 0.21	-

<i>(in thousands of Canadian dollars, unless otherwise noted)</i>	Fiscal 2020 52 weeks As reported (IFRS 16)	Fiscal 2020 52 weeks Excluding IFRS 16⁽¹⁾	Fiscal 2019 53 weeks As reported (IAS 17)	Change
	(A)	(B)	(C)	(B) - (C)
Gross profit	\$ 403,424	\$ 380,390	\$ 342,913	\$ 37,477
<i>As a percentage of net revenue</i>	41.1%	38.8%	39.2%	(0.4%)
SG&A	\$ 243,362	\$ 243,778	\$ 215,297	\$ 28,481
<i>As a percentage of net revenue</i>	24.8%	24.9%	24.6%	0.3%
Adjusted EBITDA ⁽²⁾	\$ 172,572	\$ 172,572	\$ 161,045	\$ 11,527
<i>As a percentage of net revenue</i>	17.6%	17.6%	18.4%	(0.8%)
Adjusted Net Income	\$ 97,388	\$ 97,614	\$ 94,543	\$ 3,071
<i>As a percentage of net revenue</i>	9.9%	10.0%	10.8%	(0.8%)
Adjusted Net Income per Diluted Share	\$ 0.87	\$ 0.87	\$ 0.81	\$ 0.06

Notes:

⁽¹⁾ Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

⁽²⁾ To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020 and Fiscal 2020 have been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16.

Financial Highlights

We refer the reader to the section entitled “How We Assess the Performance of Our Business” of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled “Selected Consolidated Financial Information” for reconciliations of non-IFRS measures with the most directly comparable IFRS measure.

Q4 2020 Compared to Q4 2019

Select financial highlights include the following:

- Comparable sales growth⁽³⁾ was 8.9%, the 22nd consecutive quarter of positive growth.
- Net revenue increased by 6.3% to \$275.4 million from \$259.1 million in Q4 2019, with positive performance across all geographies and all channels. Excluding the 53rd week of Fiscal 2019, net revenue increased by 11.6%.
- Gross profit margin⁽³⁾ was 37.3%. Excluding the impact of IFRS 16⁽⁴⁾, gross profit margin was 35.3%, compared to 36.2% in Q4 2019.
- Adjusted EBITDA⁽³⁾ remained effectively flat at \$42.4 million.
- Net income increased by 16.0% to \$21.7 million from \$18.7 million in Q4 2019.
- Adjusted Net Income⁽³⁾ decreased by 6.6% to \$23.4 million from \$25.1 million in Q4 2019.
- Adjusted Net Income per diluted share⁽³⁾ remained flat at \$0.21 compared to Q4 2019.
- Cash and cash equivalents at the end of Q4 2020 totaled \$117.8 million, compared to \$100.9 million at the end of Q4 2019.

Fiscal 2020 Compared to Fiscal 2019

Select financial highlights include the following:

- Comparable sales growth⁽³⁾ was 7.6%, following 9.8% comparable sales growth in Fiscal 2019.
- Net revenue increased by 12.2% to \$980.6 million from \$874.3 million in Fiscal 2019, with positive performance across all geographies and all channels. Excluding the 53rd week of Fiscal 2019, net revenue increased by 13.7%.
- Gross profit margin⁽³⁾ was 41.1%. Excluding the impact of IFRS 16⁽⁴⁾, gross profit margin was 38.8%, compared to 39.2% in Fiscal 2019.
- Adjusted EBITDA⁽³⁾ increased by 7.2% to \$172.6 million from \$161.0 million in Fiscal 2019.
- Net income increased by 15.1% to \$90.6 million from \$78.7 million in Fiscal 2019.
- Adjusted Net Income⁽³⁾ increased by 3.0% to \$97.4 million from \$94.5 million in Fiscal 2019.
- Adjusted Net Income per diluted share⁽³⁾ increased by 7.4% to \$0.87 from \$0.81 in Fiscal 2019.

Notes :

⁽³⁾ See the sections below entitled “How We Assess the Performance of our Business” and “Selected Consolidated Financial Information” for further details concerning comparable sales growth, Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per diluted share and free cash flow for a reconciliation to the most comparable IFRS measure.

⁽⁴⁾ See “Significant New Accounting Standards Recently Adopted” and “Selected Consolidated Financial Information” below for more information regarding the financial impact of IFRS 16 on Q4 2020 and Fiscal 2020 results.

Strategic Accomplishments for Fiscal 2020

- Delivered revenue growth in the United States of 29.4%, excluding the 53rd week last year, driven by double digit comparable sales growth and new boutique openings.
- Opened five boutiques in the United States and repositioned three existing boutiques in Canada.
- Achieved eCommerce penetration of 23% driven by strong growth in both traffic and transactions in Canada and the United States.
- Completed the implementation of the first three components of our Customer Program designed to enhance the client experience, including our Customer 360 data warehouse, Marketing Communication Platform and our new Concierge platform.
- Generated free cash flow⁽³⁾ of \$117.2 million.

COVID-19 Update

Since the outbreak of COVID-19, our priorities have been the well-being of our people, clients and supporting the community while safeguarding the long-term financial strength of our business. On March 16, 2020, we temporarily closed all of our 96 retail boutiques in Canada and the United States and immediately focused our efforts on driving revenue through *aritzia.com*. Concurrently, we took swift action to enhance our short-term liquidity and protect our cash position. These measures included:

- **Drawing down \$100.0 million from our revolving credit facility (“Revolving Credit Facility”)** to enhance our short-term liquidity;
- **Suspending share repurchases** under our NCIB;
- **Leveraging applicable government business support programs** for COVID-19;
- **Delaying capital expenditures** related to boutique construction;
- **Accelerating infrastructure investments** related to eCommerce and omni-channel projects;
- **Reducing and/or eliminating any outstanding Spring/Summer orders** to optimize inventory levels;
- **Driving cost reductions** by minimizing non-essential operating costs and ongoing negotiations with suppliers, vendors, and landlords for concessions;
- **Extending payment terms** where possible; and
- **Temporarily reducing compensation** for the senior leadership team by 25% and the forfeiture by the Board of Directors of the cash portion of their fees.

During the temporary boutique closure period, we saw favourable response to our beautifully designed Spring/Summer product and strategic sales events through our eCommerce channel. eCommerce revenue growth since our boutique closures has been in excess of 150% compared to last year. Operating under stringent health and safety protocols and the support of nearly 575 retail and support office employees, our Distribution Centres and Concierge teams effectively managed the surge in eCommerce volumes while maintaining delivery times to meet or exceed clients' expectations. To-date, we have not laid off or furloughed any of our employees due to COVID-19. We will, however, pursue a right-sizing of our infrastructure once clarity on a new normal emerges.

On May 7, 2020, we began the phased reopening of our retail boutiques. We have established a list of criteria to determine the timing of boutique reopenings, taking into consideration the guidance of local authorities, the reopening status of shopping centres, and our readiness. As part of the reopening plan, we have implemented extensive health and safety measures designed to protect our people and clients. We expect to have reopened approximately 30 of our 96 boutiques by May 31, 2020 and are actively preparing for the reopening of the remainder of our retail boutiques as conditions permit in the coming weeks. While initial results from the reopening process are encouraging in light of the current environment, we expect an extended ramp to a new normal.

We expect to reopen our support office in British Columbia under stringent health precautions on a voluntary basis starting June 1, 2020.

We suspended most of our marketing initiatives and instead launched the Aritzia Community™ Care Program in early May. The initiative, in collaboration with the medical community, gifts over 100,000 frontline healthcare workers with custom-designed clothing packages. The gift comprises an initial donation of \$10 million in retail value.

Summary of Factors Affecting Performance

Since the outbreak of COVID-19 and the resulting emergency measures put in place by federal, provincial, state and local governments across North America, we have seen, and expect to continue to see, a direct, material adverse impact to many of the factors affecting our performance. The extent of the impact of such emergency measures, will depend on future developments, including the duration of COVID-19, which are uncertain and cannot be predicted.

We generally believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See also the “Risk Factors” section of this MD&A and in our AIF.

Our Brand

We are a vertically integrated innovative design house of exclusive fashion brands that offers a strategic mix of exclusive brands that have been thoughtfully conceived, created and developed. Each of our exclusive brands has its own vision and distinct aesthetic point of view. As a group, they are united by an unwavering commitment to superior fabrics, meticulous construction and relevant, effortless design. Our portfolio of exclusive brands enables us to appeal to our clients across multiple aspects of their lifestyles and life stages, producing strong and enduring client loyalty.

Product Innovation and Merchandise Planning Strategy

We believe that our differentiated multi-brand strategy is a key driver of our continued year-over-year net revenue growth and comparable sales growth. Each of our exclusive brands is treated as an independent label and is supported by our own dedicated in-house design team focused on creating beautiful, quality products that align with the unique positioning, look and feel of each brand. In addition to creating new exclusive brands, we continue to innovate our products by broadening our assortment across categories and styles – some examples include the development of leather, denim, intimates and extended sizing opportunities. Our demand-driven merchandise planning, buying and inventory strategies have been developed and refined for more than three decades, and are designed to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place. Currently our product costs have been pressured by higher raw material costs and the effect of new tariffs.

Boutique Network Expansion and Enhancement

We have developed our boutique network in a measured and disciplined manner. We have a portfolio of boutiques situated in premier real estate locations in high performing retail malls and high streets in North America. In addition to opening new Aritzia and exclusive brand boutiques (e.g. Wilfred, Babaton and TNA), we have generated attractive returns on capital by enhancing elements of our existing boutiques (including footprint, layout and assortment) through carefully considered boutique expansions and repositions. As a result of our disciplined real estate selection process and compelling boutique economics, we have never permanently closed an Aritzia boutique in our 35-year history.

We believe that we have a meaningful opportunity to continue to grow our boutique network, particularly in the United States. To maintain the overall look and feel of the Aritzia brand and support our compelling boutique economics, we are selective in evaluating boutique locations, with a focus on securing premier locations in high performing retail malls and high streets.

The following table summarizes the change in our boutique count for the periods indicated.

	Q4 2020	Q4 2019	Fiscal 2020	Fiscal 2019
Number of boutiques, beginning of period	94	92	91	85
New boutiques	2	-	5	7
Boutique repositioned into a flagship boutique ⁽⁵⁾	-	(1)	-	(1)
Number of boutiques, end of period	96	91	96	91
Boutiques expanded or repositioned	-	1	3	4

⁽⁵⁾ Q4 2019 and Fiscal 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

Subsequent to year end, we opened one new Aritzia boutique located in Greater Vancouver, British Columbia.

eCommerce Growth

Our clients shop both online and in-boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefitting the other through increased brand awareness and affinity.

We believe the following strategies will support the net revenue growth objectives of *aritzia.com*:

- *Drive our omni-channel growth and capabilities* – Our clients shop both online and in our boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefitting the other through increased brand awareness and affinity. We are aiming to launch digital selling tools in our stores as well as new Aritzia Concierge capabilities that will enhance client interactions. We will seek to integrate these capabilities with the *aritzia.com* experience.
- *Capitalize on digital marketing channels to drive client acquisition and retention* – We are directing resources with a renewed focus on digital marketing, including programs centred on search engine optimization enhancements, refinement of our email marketing, and further leveraging our social media. We made numerous technical enhancements to improve our search engine optimization results, including navigation bread crumbs, improved product descriptions, and data driven category naming. We are pleased with the positive impact this has had on new client visits.
- *Deliver personalized experiences* - We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our clients. This includes optimizing our online operations to enhance personalization, which we believe will drive higher conversion and client loyalty. Our goal is to use personalization techniques to customize product and content recommendations to clients based on where they are and how they shop.
- *Improve the digital experience to enhance the shopping experience online* – We are focused on improving the digital experience across all devices (e.g. desktop, mobile, tablet) to work towards making shopping frictionless. In Fiscal 2019, we implemented a number of core optimizations including user reviews and fit guides, enhancing site search functionality, landing page templates, and numerous checkout improvements to reduce client friction. The core areas of our client’s digital journey including content, evaluating, discovery, and purchase are continuously improved resulting in increased conversion rate and average order value.
- *Elevate the brand online* – We see our multi-brand strategy as an asset, and we want to leverage it to create emotional connections with our clients. We are mobilizing resources to focus on developing enhancements to our brand shops and building intuitive tools to allow our clients to easily shop collections of products. We believe this will help improve conversion rates and drive repeat purchases.

Sourcing and Production

We contract and maintain direct relationships with a diversified base of independent suppliers and manufacturers for our exclusive brands, which provide us with the flexibility to source high quality materials and products at competitive costs. We source the majority of our raw materials directly from suppliers and

manufacturers, located primarily in China, Japan, Italy, South Korea and France, which we believe to be best-in-class that uphold our standards for quality, lead time and cost. Our finished goods are sourced from manufacturers located primarily in China, Vietnam, India, Romania, Sri Lanka and Cambodia. Capacity planning with our manufacturers is done at the beginning of the season to ensure flexibility. We believe that our approach of sourcing a majority of our raw materials and working directly with suppliers and manufacturers enhances our ability to create beautiful and high-quality products in a timely manner. We engage third parties to inspect our manufacturers' factories to ensure quality control. We engage independent expert service providers to conduct factory audits for compliance with local laws and regulations and global standards.

Infrastructure Investments

We continue to strategically invest in infrastructure to safeguard and maximize our existing business, as well as support our growth.

In Fiscal 2018, we successfully completed the implementation of our new point-of-sale ("POS") system in all of our boutiques and our client care centre. This new POS system provides us with a robust platform on which to build and evolve the services and experience we offer to our clients. It has provided us with world class infrastructure, labour efficiencies, greater access to more reliable data and specifically, a foundation to evolve our omni-channel and clienteling capabilities. The new POS system provides near real-time visibility to inventory and sales data. This has already allowed us to respond more nimbly in managing our inventory to maximize sales, as well as begin providing true omni-channel capabilities to give clients even more flexibility in how they shop and receive Ariztia products. In Fiscal 2019, we implemented verified eCommerce returns and integrated payments, which allows us to further enhance our clients' experience.

In August 2018, we relocated and expanded our Greater Vancouver distribution centre from 83,000 square feet into a new 223,000 square foot facility with an upgraded warehouse-management system. The new distribution centre primarily services the west coast and serves as a hub for the rest of our network. During Q2 2020, we completed the expansion of both of our third-party distribution centres in Mississauga, Ontario and Columbus, Ohio. In total, we added 177,000 square feet of space, representing an approximately 80% increase in size for these facilities. These expansions support both our retail and eCommerce businesses with added capacity to handle higher levels of throughput.

Our digital marketing strategy contemplates our eCommerce business as an extension of our boutique experience. This allows us to not only communicate with our clients, but also to interact with and drive engagement.

As we look to further elevate our client experience, we are continuing to develop our Customer Program, which is a multi-year initiative comprised of four projects that are expected to be implemented in phases. The program is designed to build on our world class client experience by providing a seamless, consistent and personalized approach towards how we engage and service our clients. Through advanced business intelligence and behavior analytics, our goal is to be able to tailor unique shopping experiences both in our boutiques and online while driving revenue and client loyalty:

- *Customer 360* – Launched in Fiscal 2020, this tool enables us to store, view and edit client information from all of our front end systems. This gives us an enhanced, real-time view of our clients including their attributes, past purchases and preferences.
- *Marketing Communications Platform* – This platform builds on Customer 360's data repository, which is expected to allow us to personalize our communications by creating campaigns that cater to our clients' attributes and preferences. We expect that a more personalized approach to marketing communications will enhance our top-line growth. The first phase was completed in Fiscal 2020.
- *Concierge* – Launched in Fiscal 2020, this new, integrated solution is expected to not only allow us to enhance our client experience throughout the lifecycle of their purchase, it is also expected to represent a revenue generating opportunity as we personalize each client interaction through our client care centre.
- *Digital Selling Tools* – This project is expected to be implemented in multiple phases. In the form of a mobile app, the digital selling tool is designed to provide enriched client information and product data to improve the productivity of our style advisors.

Our Product Lifecycle Management ("PLM") system is another foundational technology we are in the process of implementing. The PLM system will manage all of the data to support all of the processes necessary to bring a

product to market. The application is designed to provide visibility into our raw materials and enable us to focus on innovation, drive quality, reduce speed to market and optimize costs in our manufacturing processes.

We also continue to expand our talent pool across the organization. We are continuing to find key talent at all levels to support our business and our growth strategies.

Our focus on building our digital infrastructure impacts everything we do. In our view, digital is about more than just our technology and eCommerce business, it runs through the business all the way from design to the service we deliver in boutiques. These strategic investments in systems, infrastructure and people are expected to keep us on the forefront of providing the exceptional client service and an aspirational shopping experience for which we are well-known.

Consumer Trends

The women's apparel industry is subject to shifts in consumer trends, preferences and consumer spending and our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. Our differentiated multi-brand strategy gives us control over our products and provides us with the flexibility to optimize our brand mix as needed to address changes in consumer demand and fashion preferences, which has been a critical driver of the consistency of our growth. Our diversified mix of exclusive brands satisfies a broad range of fashion needs, which allows us to attract a wide client base and increases our addressable market. Our revenue is also impacted by discretionary spending by consumers, which is affected by many factors that are beyond our control, including, but not limited to, general economic conditions, consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods and the effects of weather or natural disasters. We believe that our track record demonstrates the success of our exclusive brand strategy at responding to changes in fashion demands through all stages of economic cycles.

Seasonality

Our business is seasonal, with a higher proportion of net revenue and operating cash flows generated during the second half of the fiscal year, which includes the back-to-school and holiday seasons. We also have higher working capital requirements in the periods preceding the launch of new seasons as we receive and pay for new inventory. We manage our working capital needs through cash flow from operations and our Revolving Credit Facility.

Average quarterly share of annual net revenue over the last three completed fiscal years is as follows:

First fiscal quarter	20%
Second fiscal quarter	24%
Third fiscal quarter	27%
Fourth fiscal quarter	<u>29%</u>
Yearly total	<u>100%</u>

Weather

Extreme weather conditions in the areas in which our boutiques are located could adversely affect our business and financial results. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our clients to travel to our boutiques and thereby reduce our revenue and profitability. This is potentially mitigated by our clients' ability to buy our products through *aritzia.com*. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions, which could adversely affect sales of these seasonal items.

Competition

We operate in the women's apparel industry, primarily within the North American market. We compete on the basis of several factors that include our strategic mix of exclusive brands, offering high quality products at an attainable price point, our proven and sophisticated merchandise planning strategy, our focus on providing exceptional client service, our premier real estate portfolio and our market positioning. We believe the industry is

evolving to benefit players like us that have the scale needed to leverage their infrastructure and capabilities in areas such as brand equity creation, real estate selection, boutique design, supply chain and eCommerce.

Foreign Exchange

The majority of our net revenue is derived in Canadian dollars while the vast majority of our cost of goods sold is denominated in U.S. dollars. Fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar could materially affect our gross profit margins and operating results. From time to time, we use foreign currency forward contracts to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada, but there can be no assurances that such strategies will prove to be successful. See “Financial Instruments” and “Risk Factors” sections of this MD&A.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results.

Net Revenue

Net revenue reflects our 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 boutique and subsequently picked up by or delivered to the customer, revenue is deferred until control of the merchandise has been transferred to the customer. eCommerce revenue is recognized at the date control has been transferred to the customer, and measured at the fair value of consideration received, net of discounts and an estimated allowance for returns. Revenues are reported net of sales taxes collected for various governmental agencies.

Comparable Sales Growth

Comparable sales growth is a retail industry metric used to compare the percentage change in sales derived from established boutiques of a certain period as compared to the sales from the same boutiques in the same period in the prior year. Comparable sales growth helps to explain our revenue growth in established boutiques and eCommerce. Comparable sales is calculated based on revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts), and excludes boutiques that were expanded or repositioned, boutiques in centres where we opened a new additional boutique and boutiques significantly impacted by nearby construction and other similar disruptions during this period and week 53 net revenue, if applicable. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. We apply the prior year’s average quarterly exchange rate to both current year and prior year comparable sales to achieve a consistent basis for comparison (i.e. on a constant currency basis).

Gross Profit

Gross profit reflects our net revenue less cost of goods sold. Cost of goods sold includes inventory and product-related costs, variable lease payments and other occupancy-related expenses, as well as depreciation expense for our boutique and distribution centre assets. Our cost of goods sold may include different costs compared to other retailers. Gross profit margin is impacted by the components of cost of goods sold, product mix and markdowns. We define gross profit margin as our gross profit divided by our net revenue.

Selling, General and Administrative (“SG&A”) Expenses

Our SG&A expenses consist of selling expenses that are generally variable with net revenue and general and administrative operating expenses that are primarily fixed. Our SG&A expenses also include depreciation and amortization expenses for all support office assets and intangible assets. We expect our SG&A expenses to increase as we continue to open new boutiques, grow our eCommerce business, increase brand awareness and invest in our infrastructure and people.

SG&A expenses as a percentage of net revenue, excluding strategic investments in technology and infrastructure, are usually higher in the lower-volume first and second quarters, and lower in the higher-volume third and fourth quarters because a portion of these costs are relatively fixed. Our SG&A expenses may include different expenses compared to other retailers.

EBITDA

We define EBITDA as consolidated net income before depreciation and amortization, finance expense and income tax expense.

Adjusted EBITDA

We believe Adjusted EBITDA is a useful measure of operating performance, as it provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities by removing the effects of interest, depreciation and amortization expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted EBITDA as consolidated net income before depreciation and amortization, finance expense and income tax expense, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized gains or losses on equity derivatives and forward contracts and other items we consider non-recurring and not representative of our ongoing operating performance. Beginning Q1 2020, we adopted IFRS 16 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020 and Fiscal 2020 have been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16 (for additional information relating to the adoption of IFRS 16, see “Significant New Accounting Standards Recently Adopted”). Because Adjusted EBITDA excludes certain non-cash items, we believe that it is less susceptible to variances in actual performance resulting from depreciation and amortization and other non-cash charges.

Adjusted Net Income (per diluted share)

We believe Adjusted Net Income (per diluted share) is a useful measure of performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted Net Income to facilitate a comparison of our performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted Net Income as consolidated net income, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized gains or losses on equity derivatives and forward contracts and other items we consider non-recurring and not representative of our ongoing operating performance, net of related tax effects. We define Adjusted Net Income per diluted share by dividing Adjusted Net Income by the weighted average number of diluted shares outstanding.

Free Cash Flow

Free cash flow is a non-GAAP measure we consider to be an important metric because it is an indicator of how much cash is available for debt repayment, share repurchases, re-investment in the Company and other financing activities. Our sustained ability to generate free cash flow is an indicator of the financial strength of our business, as we require regular capital expenditures to build and maintain boutiques and purchase new equipment to improve our business and infrastructure. We define free cash flow as net cash generated from operating activities excluding interest paid, less net cash used in investing activities and repayments of principal on lease liabilities.

Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below has been derived from our audited annual consolidated financial statements and related notes. The selected consolidated financial information set out below for Q4 2020 and Q4 2019 is unaudited.

(in thousands of Canadian dollars, unless otherwise noted)

	Q4 2020 13 weeks			Q4 2019 14 weeks
	As reported (IFRS 16)	IFRS 16 adoption impact	Excluding IFRS 16 ⁽⁶⁾	As reported (IAS 17)
Consolidated Statements of Operations:				
Net revenue	\$ 275,430	\$ -	\$ 275,430	\$ 259,050
Cost of goods sold	172,589	5,738	178,327	165,203
Gross profit	102,841	(5,738)	97,103	93,847
Operating expenses				
Selling, general and administrative	64,331	121	64,452	59,349
Stock-based compensation expense	2,411	-	2,411	2,596
Income from operations	36,099	(5,859)	30,240	31,902
Finance expense	6,914	(5,866)	1,048	1,219
Other (income) expenses	(1,354)	-	(1,354)	4,416
Income before income taxes	30,539	7	30,546	26,267
Income tax expense	8,824	2	8,826	7,544
Net income	\$ 21,715	\$ 5	\$ 21,720	\$ 18,723
Percentage of Net Revenue:				
Net revenue	100.0%		100.0%	100.0%
Cost of goods sold	62.7%		64.7%	63.8%
Gross profit	37.3%		35.3%	36.2%
Operating expenses				
Selling, general and administrative	23.4%		23.4%	22.9%
Stock-based compensation expense	0.9%		0.9%	1.0%
Income from operations	13.1%		11.0%	12.3%
Finance expense	2.5%		0.4%	0.5%
Other (income) expenses	(0.5%)		(0.5%)	1.7%
Income before income taxes	11.1%		11.1%	10.1%
Income tax expense	3.2%		3.2%	2.9%
Net income	7.9%		7.9%	7.2%
Other Performance Measures:				
Year-over-year net revenue growth	6.3%		6.3%	17.9%
Comparable sales growth	8.9%		8.9%	5.5%
Free cash flow	\$ 20,656		\$ 20,656	\$ (20,876)
Capital cash expenditures (excluding proceeds from leasehold inducements)	\$ 12,167		\$ 12,167	\$ 14,677
Number of boutiques, end of period	96		96	91
New boutiques added	2		2	-
Boutiques expanded or repositioned ⁽⁷⁾	-		-	-

Note:

⁽⁶⁾ Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

⁽⁷⁾ Q4 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

(in thousands of Canadian dollars, unless otherwise noted)

	Fiscal 2020 52 weeks			Fiscal 2019 53 weeks
	As reported (IFRS 16)	IFRS 16 adoption impact	Excluding IFRS 16 ⁽⁸⁾	As reported (IAS 17)
Consolidated Statements of Operations:				
Net revenue	\$ 980,589	\$ -	\$ 980,589	\$ 874,296
Cost of goods sold	577,165	23,034	600,199	531,383
Gross profit	403,424	(23,034)	380,390	342,913
Operating expenses				
Selling, general and administrative	243,362	416	243,778	215,297
Stock-based compensation expense	7,790	-	7,790	11,540
Income from operations	152,272	(23,450)	128,822	116,076
Finance expense	28,319	(23,763)	4,556	4,821
Other income	(2,185)	-	(2,185)	(395)
Income before income taxes	126,138	313	126,451	111,650
Income tax expense	35,544	87	35,631	32,922
Net income	\$ 90,594	\$ 226	\$ 90,820	\$ 78,728
Percentage of Net Revenue:				
Net revenue	100.0%		100.0%	100.0%
Cost of goods sold	58.9%		61.2%	60.8%
Gross profit	41.1%		38.8%	39.2%
Operating expenses				
Selling, general and administrative	24.8%		24.9%	24.6%
Stock-based compensation expense	0.8%		0.8%	1.3%
Income from operations	15.5%		13.1%	13.3%
Finance expense	2.9%		0.5%	0.6%
Other income	(0.2%)		(0.2%)	(0.0%)
Income before income taxes	12.9%		12.9%	12.8%
Income tax expense	3.6%		3.6%	3.8%
Net income	9.2%		9.3%	9.0%
Other Performance Measures:				
Year-over-year net revenue growth	12.2%		12.2%	17.6%
Comparable sales growth	7.6%		7.6%	9.8%
Free cash flow	\$ 117,246		\$ 117,246	\$ 38,874
Capital cash expenditures (excluding proceeds from leasehold inducements)	\$ 47,790		\$ 47,790	\$ 62,010
Number of boutiques, end of period	96		96	91
New boutiques added	5		5	7
Boutiques expanded or repositioned ⁽⁹⁾	3		3	3

Note:

⁽⁸⁾ Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

⁽⁹⁾ Fiscal 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

The following table provides a reconciliation of net income to EBITDA, Adjusted EBITDA and Adjusted Net Income, Adjusted Net Income per diluted share and Comparable Sales to Net Revenue for the periods indicated.

	Q4 2020 13 weeks	Q4 2019 14 weeks	Fiscal 2020 52 weeks	Fiscal 2019 53 weeks
	(in thousands of Canadian dollars, unless otherwise noted)			
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:				
Net income	\$ 21,715	\$ 18,723	\$ 90,594	\$ 78,728
Depreciation and amortization	24,134	7,355	93,502	27,065
Finance expense	6,914	1,219	28,319	4,821
Income tax expense	8,824	7,544	35,544	32,922
EBITDA	61,587	34,841	247,959	143,536
Adjustments to EBITDA:				
Stock-based compensation expense	2,411	2,596	7,790	11,540
Rent impact from IFRS 16, Leases ⁽¹⁰⁾	(20,973)	-	(82,527)	-
Unrealized (gain) loss on equity derivatives and forward contracts	(650)	-	(650)	415
Lease exit cost	-	5,725	-	5,725
Other non-recurring items ⁽¹¹⁾	-	(594)	-	(171)
Adjusted EBITDA	\$ 42,375	\$ 42,568	\$ 172,572	\$ 161,045
Adjusted EBITDA as a Percentage of Net Revenue	15.4%	16.4%	17.6%	18.4%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	\$ 21,715	\$ 18,723	\$ 90,594	\$ 78,728
Adjustments to net income:				
Stock-based compensation expense	2,411	2,596	7,790	11,540
Unrealized (gain) loss on equity derivatives and forward contracts	(650)	-	(650)	415
Lease exit cost	-	5,725	-	5,725
Other non-recurring items ⁽¹¹⁾	-	(594)	-	(171)
Related tax effects	(48)	(1,378)	(346)	(1,694)
Adjusted Net Income	\$ 23,428	\$ 25,072	\$ 97,388	\$ 94,543
Adjusted Net Income as a Percentage of Net Revenue	8.5%	9.7%	9.9%	10.8%
Weighted Average Number of Diluted Shares Outstanding (thousands)				
	113,120	117,488	112,128	117,358
Adjusted Net Income per Diluted Share	\$ 0.21	\$ 0.21	\$ 0.87	\$ 0.81

Note (10)
Rent Impact from IFRS 16, Leases

	Q4 2020 13 weeks	Fiscal 2020 52 weeks
Net income	\$ 5	\$ 226
Depreciation and amortization	(15,114)	(59,077)
Finance expense	(5,866)	(23,763)
Income tax expense	2	87
Rent impact from IFRS 16, Leases	\$ (20,973)	\$ (82,527)

Notes:

⁽¹¹⁾ Other non-recurring items in Q4 2019 and Fiscal 2019 relate to transaction costs relating to our secondary offering of subordinate voting shares.

Q4 2020 **Q4 2019** **Fiscal 2020** **Fiscal 2019**
13 weeks **14 weeks** **52 weeks** **53 weeks**
(in thousands of Canadian dollars, unless otherwise noted)

Reconciliation of Comparable Sales to Net Revenue:

Comparable sales ⁽¹²⁾	\$ 245,636	\$ 205,064	\$ 850,108	\$ 644,957
Non-comparable sales	29,794	53,986	130,481	229,339
Net revenue	<u>\$ 275,430</u>	<u>\$ 259,050</u>	<u>\$ 980,589</u>	<u>\$ 874,296</u>

The following table provides selected financial position data for the periods indicated.

	As at March 1, 2020	As at March 3, 2019
Selected Consolidated Financial Position Data:		
Total assets ⁽¹³⁾	\$ 1,036,715	\$ 629,374
Total non-current liabilities ⁽¹³⁾	550,807	164,454

Results of Operations

Analysis of Results for Q4 2020 to Q4 2019

The following section provides an overview of our financial performance during Q4 2020 compared to Q4 2019.

Net Revenue

Net revenue increased by 6.3% to \$275.4 million compared to \$259.1 million in Q4 2019. Comparable sales growth⁽¹²⁾ of 8.9% was driven by momentum in our eCommerce business as well as positive performance across our boutique network. Excluding the 53rd week of Fiscal 2019, net revenue increased by 11.6%. Net revenue growth also reflects the addition of five new boutiques and three expanded or repositioned boutiques since Q4 2019.

Gross Profit

Gross profit increased by 9.6% to \$102.8 million. Excluding the impact of IFRS 16, gross profit increased by 3.5% to \$97.1 million compared to \$93.8 million in Q4 2019. Gross profit margin, excluding the impact of IFRS 16, decreased 90 basis points to 35.3% compared to 36.2% in Q4 2019. The decrease in gross profit margin was primarily due to ongoing higher raw materials costs and the impact from new tariffs, higher markdowns and higher warehousing and distribution centre costs. These factors were partially offset by an appreciation of the Canadian dollar.

Notes:

⁽¹²⁾ The comparable sales for a given period represents revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts) within that given period. This information is provided to give context for comparable sales in such given period as compared to net revenue reported in our financial statements. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. For more details, please see the "Comparable Sales Growth" subsection of the "How We Assess the Performance of Our Business" section of this MD&A.

⁽¹³⁾ The impact of IFRS 16 on the Fiscal 2020 Consolidated Financial Position figures includes an increase to total assets of \$380.4 million resulting from right-of-use assets recognized as well as an increase to non-current liabilities of \$447.1 million resulting from lease liabilities recognized.

SG&A Expenses

SG&A expenses increased by 8.4% to \$64.3 million. Excluding the impact of IFRS 16, SG&A expenses were \$64.5 million, an increase of 8.6% or 23.4% of net revenue compared to \$59.3 million or 22.9% of net revenue in Q4 2019. The increase of 50 basis points is primarily due to \$2.0 million in investments in our Customer Program.

Other (Income) Expenses

Other income was (\$1.4) million in Q4 2020, compared to other expenses of \$4.4 million in Q4 2019.

Other income of (\$1.4) million in Q4 2020 primarily relates to:

- unrealized gains on equity derivatives of (\$0.7) million,
- interest income of (\$0.5) million, and
- unrealized and realized operational foreign exchange gains of (\$0.1) million.

Other expenses of \$4.4 million in Q4 2019 primarily related to:

- a lease exit cost of \$5.7 million, partially offset by
- offering transaction cost recoveries of (\$0.6) million,
- interest income of (\$0.6) million, and
- unrealized and realized operational foreign exchange gains of (\$0.1) million.

The lease exit cost of \$5.7 million in Q4 2019 related to the exit of a lease commitment for the planned repositioning of one of our flagship boutiques. The commitment was made due to the uncertainty of remaining in the existing location as a result of redevelopment plans which were subsequently abandoned. For brand and financial reasons, we exited the alternative lease commitment, resulting in the one-time expense.

Adjusted EBITDA

Adjusted EBITDA was \$42.4 million, or 15.4% of net revenue in Q4 2020, compared to \$42.6 million, or 16.4% of net revenue in Q4 2019, primarily due to the factors discussed above. As previously noted, Adjusted EBITDA in Q4 2020 excludes the favorable impact of IFRS 16 of \$21.0 million.

Stock-Based Compensation Expense

Stock-based compensation expense was \$2.4 million in Q4 2020, compared to \$2.6 million in Q4 2019.

Included in Q4 2020 is \$1.4 million in expenses primarily related to the accounting for options under our new option plan, \$0.3 million in expenses related to the accounting for options under our legacy option plan and \$0.7 million in expenses related to the accounting for our deferred and restricted share units.

Included in Q4 2019 is \$2.1 million in expenses primarily related to the accounting for options under our new option plan and \$0.5 million in expenses related to the accounting for options under our legacy option plan.

Finance Expense

Finance expense increased by \$5.7 million to \$6.9 million in Q4 2020, compared to \$1.2 million in Q4 2019. The increase was mainly attributable to \$5.9 million of interest expense recognized on the lease liabilities under IFRS 16.

Income Tax Expense

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 rates for Q4 2020 and Q4 2019 were 26.8% and 26.9%, respectively.

Income tax expense was \$8.8 million in Q4 2020, compared to \$7.5 million in Q4 2019 and the effective tax rates for Q4 2020 and Q4 2019 were 28.9% and 28.7%, respectively.

Net Income

Net income increased by 16.0% to \$21.7 million in Q4 2020, compared to \$18.7 million in Q4 2019. This increase is primarily the result of a 6.3% increase in net revenue, an increase in gross profit margin and other income, and a decrease in stock-based compensation expense, partially offset by higher SG&A and finance expense. IFRS 16 had no significant impact on net income.

Adjusted Net Income

Adjusted Net Income decreased by 6.6% to \$23.4 million compared to \$25.1 million in Q4 2019, primarily due to the factors discussed above. IFRS 16 had no significant impact on Adjusted Net Income.

Adjusted Net Income per diluted share remained flat at \$0.21 compared to Q4 2019.

Inventory

Inventory at end of Q4 2020 was \$94.0 million, compared to \$112.2 million at the end of Q4 2019. The decrease reflects a lower initial buy for the spring/summer season and early receipt of inventory last year. Inventory at the end of the fourth quarter represented a decrease of 16.2% year over year.

Analysis of Results for Fiscal 2020 to Fiscal 2019

The following section provides an overview of our financial performance during Fiscal 2020 compared to Fiscal 2019.

Net Revenue

Net revenue increased by 12.2% to \$980.6 million from \$874.3 million in the prior year. Excluding the 53rd week of Fiscal 2019, net revenue increased by 13.7%. Comparable sales growth of 7.6% was driven by momentum in our eCommerce business as well as positive performance across our boutique network. The increase in net revenue was also driven by the revenue from new, expanded and repositioned boutiques.

Gross Profit

Gross profit increased by 17.6% to \$403.4 million. Excluding the impact of IFRS 16, gross profit increased by 10.9% to \$380.4 million compared to \$342.9 million in Fiscal 2019. Gross profit margin, excluding the impact of IFRS 16, decreased 40 basis points to 38.8% compared to 39.2% in Fiscal 2019. The decrease in gross profit margin was primarily due to higher markdowns, higher warehousing and distribution centre costs and the weakening of the Canadian dollar. These factors were partially offset by leverage from rent.

SG&A Expenses

SG&A expenses increased by 13.0% to \$243.4 million. Excluding the impact of IFRS 16, SG&A expenses increased by 13.2% to \$243.8 million compared to \$215.3 million in Fiscal 2019. Excluding the impact of IFRS 16, SG&A expenses in Fiscal 2020 were 24.9% of net revenue, compared to 24.6% of net revenue in Fiscal 2019. SG&A expenses this year includes \$7.3 million primarily relating to investments in our Customer Program.

Other (Income)

Other income was (\$2.2) million in Fiscal 2020, compared to (\$0.4) million in Fiscal 2019.

Other income of (\$2.2) million in Fiscal 2020 primarily relates to:

- interest income of (\$0.9) million,
- unrealized gains on equity derivative contracts of (\$0.7) million, and
- unrealized and realized operational foreign exchange gains of (\$0.3) million.

Other income of (\$0.4) million in Fiscal 2019 primarily related to:

- realized foreign exchange gains on the settlement of U.S. dollar forward contracts of (\$2.3) million,
- unrealized and realized operational foreign exchange gains of (\$2.3) million,
- interest income of (\$1.7) million, and

- offering transaction cost recoveries of (\$0.2) million, partially offset by
- a lease exit cost of \$5.7 million, and
- unrealized foreign exchange losses on U.S. dollar forward contracts of \$0.4 million.

The lease exit cost of \$5.7 million in Fiscal 2019 related to the exit of a lease commitment for the planned repositioning of one of our flagship boutiques. The commitment was made due to the uncertainty of remaining in the existing location as a result of redevelopment plans which were subsequently abandoned. For brand and financial reasons, we exited the alternative lease commitment, resulting in the one-time expense.

Adjusted EBITDA

Adjusted EBITDA increased by 7.2% to \$172.6 million, or 17.6% of net revenue in Fiscal 2020, compared to \$161.0 million, or 18.4% of net revenue in Fiscal 2019, primarily due to the factors discussed above. Adjusted EBITDA was negatively impacted year over year by \$4.8 million from the change in other (income) with (\$1.5) million in Fiscal 2020, compared to (\$6.4) million in other (income) in Fiscal 2019. As previously noted, Adjusted EBITDA for Fiscal 2020 excludes the favorable impact of IFRS 16 of \$82.5 million.

Stock-Based Compensation Expense

Stock-based compensation expense was \$7.8 million in Fiscal 2020, compared to \$11.5 million in Fiscal 2019.

Included in Fiscal 2020 is \$4.8 million in expenses primarily related to the accounting for options under our new option plan, \$1.1 million in expenses related to the accounting for options under our legacy option plan and \$1.9 million in expenses related to the accounting for our deferred and restricted share units. Included in Fiscal 2019 is \$8.6 million in expenses related to the accounting for options under our new option plan, \$2.4 million in expenses related to the accounting for options under our legacy option plan and \$0.5 million in expenses related to the accounting for our deferred share units.

Finance Expense

Finance expense increased by \$23.5 million to \$28.3 million in Fiscal 2020, compared to \$4.8 million in Fiscal 2019. The increase was primarily attributable to \$23.8 million of interest expense recognized on the lease liabilities under IFRS 16.

Income Tax Expense

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 rates for Fiscal 2020 and Fiscal 2019 were 26.8% and 26.9%, respectively.

Income tax expense was \$35.5 million in Fiscal 2020, compared to \$32.9 million in Fiscal 2019 and the effective tax rates for Fiscal 2020 and Fiscal 2019 were 28.2% and 29.5%, respectively. The decrease in the effective tax rate compared to Fiscal 2019 is due to a decrease in the amount of stock-based compensation expense.

Net Income

Net income increased by 15.1% to \$90.6 million in Fiscal 2020, compared to \$78.7 million in Fiscal 2019. This increase is primarily the result of a 12.2% increase in net revenue, an increase in gross profit margin and other income, and a decrease in stock-based compensation expense, partially offset by higher SG&A, finance expense and income tax expense. IFRS 16 had no significant impact on net income.

Adjusted Net Income

Adjusted Net Income increased by 3.0% to \$97.4 million compared to \$94.5 million in Fiscal 2019, primarily due to the factors discussed above. Adjusted Net Income was negatively impacted year over year by \$3.5 million from the after-tax change in other (income) with (\$1.1) million in Fiscal 2020 compared to (\$4.6) million in other (income) in Fiscal 2019. IFRS 16 had no significant impact on Adjusted Net Income.

Adjusted Net Income per diluted share increased by 7.4% to \$0.87 from \$0.81 in Fiscal 2019.

Summary of Consolidated Quarterly Results and Certain Performance Measures

The following table summarizes the results of our operations for the last eight most recently completed quarters. This unaudited quarterly information, other than Adjusted EBITDA, Adjusted Net Income and comparable sales growth, has been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

	Fiscal 2020				Fiscal 2019			
	Q4 13 weeks	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks	Q4 14 weeks	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks
(in thousands of Canadian dollars, unless otherwise noted)								
Consolidated Statements of Operations:								
Net revenue	\$ 275,430	\$ 267,282	\$ 241,178	\$ 196,699	\$ 259,050	\$ 242,876	\$ 205,359	\$ 167,011
Gross profit	102,841	119,595	95,427	85,561	93,847	104,789	76,734	67,543
SG&A	64,331	64,035	60,567	54,429	59,349	56,554	52,401	46,993
Income from operations	36,099	54,497	32,918	28,758	31,902	45,339	21,681	16,731
Adjusted EBITDA ⁽¹⁴⁾	42,375	58,446	36,372	35,379	42,568	57,093	33,032	28,352
Net income	21,715	34,803	17,920	16,156	18,723	32,600	15,115	12,290
Adjusted Net Income ⁽¹⁴⁾	23,428	35,719	19,757	18,484	25,072	35,933	18,295	15,243
Percentage of Net Revenue:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	37.3%	44.7%	39.6%	43.5%	36.2%	43.1%	37.4%	40.4%
SG&A	23.4%	24.0%	25.1%	27.7%	22.9%	23.3%	25.5%	28.1%
Adjusted EBITDA ⁽¹⁴⁾	15.4%	21.9%	15.1%	18.0%	16.4%	23.5%	16.1%	17.0%
Income from operations	13.1%	20.4%	13.6%	14.6%	12.3%	18.7%	10.6%	10.0%
Net income	7.9%	13.0%	7.4%	8.2%	7.2%	13.4%	7.4%	7.4%
Adjusted Net Income ⁽¹⁴⁾	8.5%	13.4%	8.2%	9.4%	9.7%	14.8%	8.9%	9.1%
Weighted average number of diluted shares (in thousands)								
	113,120	111,898	111,537	111,851	117,488	117,681	117,410	116,780
Adjusted Net Income per Diluted Share	\$ 0.21	\$ 0.32	\$ 0.18	\$ 0.17	\$ 0.21	\$ 0.31	\$ 0.16	\$ 0.13
Growth:								
Net revenue growth	6.3%	10.0%	17.4%	17.8%	17.9%	18.8%	18.0%	15.1%
Comparable Sales Growth ⁽¹⁴⁾	8.9%	5.1%	8.4%	7.9%	5.5%	12.9%	11.5%	10.9%
Boutiques:								
Number of boutiques, beginning of period	94	93	92	91	92	90	87	85
New boutiques added	2	1	1	1	-	2	3	2
Boutique repositioned into a flagship boutique ⁽¹⁵⁾	-	-	-	-	(1)	-	-	-
Number of boutiques, end of period	96	94	93	92	91	92	90	87
Boutiques expanded or repositioned	-	2	-	1	1	-	1	2

Note:

⁽¹⁴⁾ See "How We Assess the Performance of Our Business" for definitions of Adjusted EBITDA, Adjusted Net Income and Comparable Sales Growth, which are non-IFRS measures including Retail Industry Metrics. See also "Non-IFRS Measures".

⁽¹⁵⁾ Q4 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

Liquidity and Capital Resources

Overview

Our principal uses of funds are for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities (as hereinafter defined), are expected to be sufficient to meet our future operating expenses, capital expenditures and future debt service requirements. Our ability to fund operating expenses, capital expenditures and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Summary of Factors Affecting Performance” and “Risk Factors” of this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise. Historically, the funding for any such investments has come from cash flows from operating activities and/or our Credit Facilities.

Credit Facilities

We have a term loan (“Term Loan”) and Revolving Credit Facility (collectively the “Credit Facilities”) with our syndicate of lenders.

As at March 1, 2020, the aggregate amount outstanding under our Term Loan was \$75.0 million. The Term Loan matures on May 22, 2022 and has no scheduled principal repayments prior to maturity. The Term Loan requires mandatory loan prepayments by us of principal and interest if certain events occur.

A \$100.0 million Revolving Credit Facility is also available as part of the Credit Facilities. No amounts were drawn on the Revolving Credit Facility as at March 1, 2020. See “Contractual Obligations – Off-Balance Sheet Arrangements and Commitments” for letters of credit issued. See “COVID-19 Update” for more information.

In addition, we also have letters of credit facilities of \$75.0 million, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.00% and 2.50%.

The credit agreement contains restrictive covenants customary for credit facilities of this nature, including restrictions on us and each credit facility guarantor, subject to certain exceptions, to incur indebtedness, grant liens, merge, amalgamate or consolidate with other companies, transfer, lease or otherwise dispose of all or substantially all of its assets, liquidate or dissolve, engage in any material business other than the fashion retail business, make investments, acquisitions, loans, advances or guarantees, make any restricted payments, enter into transactions with affiliates, repay indebtedness, enter into restrictive agreements, enter into sale-leaseback transactions, ensure pension plan compliance, sell or discount receivables, enter into agreements with unconditional purchase obligations, issue shares, create or acquire a subsidiary or make any hostile acquisitions.

Cash Flows

The following table presents cash flows for the periods indicated.

	Q4 2020 13 weeks	Q4 2019 14 weeks	Fiscal 2020 52 weeks	Fiscal 2019 53 weeks
	(in thousands of Canadian dollars)			
Net cash generated from (used in) operating activities	\$ 47,898	\$ (7,386)	\$ 222,076	\$ 96,175
Net cash used in financing activities	(13,614)	(56)	(157,402)	(46,193)
Net cash used in investing activities	(12,167)	(14,677)	(47,790)	(62,010)
Effect of exchange rate changes on cash and cash equivalents	(33)	(24)	(31)	450
Increase (decrease) in cash and cash equivalents	\$ 22,084	\$ (22,143)	\$ 16,853	\$ (11,578)

Analysis of Cash Flows for the Fourth Quarter and Fiscal 2020

Cash Flows Generated from Operating Activities

For Q4 2020, cash flows generated from operating activities totaled \$47.9 million. As a result of adopting IFRS 16 in Q1 2020, \$16.0 million of lease payments, which were presented within cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities.

Excluding the lease payment presentation impact of IFRS 16, Q4 2020 cash flows generated from operating activities would have been \$31.9 million compared to cash flows of \$7.4 million used in Q4 2019. This change was primarily attributable to lower use of working capital due to the timing of inventory purchases and lower income tax payments.

For Fiscal 2020, cash flows generated from operating activities totaled \$222.1 million. As a result of adopting IFRS 16 in Q1 2020, \$61.5 million of lease payments, which were presented within cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Fiscal 2020 cash flows generated from operating activities would have been \$160.6 million compared to cash flows of \$96.2 million generated in Fiscal 2019. This change was primarily attributable to higher Adjusted EBITDA and lower use of working capital due to the timing of inventory purchases, partially offset by higher income tax payments and lower proceeds from lease incentives.

Cash Flows Used in Financing Activities

For Q4 2020, cash flows used in financing activities totaled \$13.6 million. As a result of adopting IFRS 16 in Q1 2020, \$16.0 million of lease payments, which were presented as cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Q4 2020 cash flows generated by financing activities would have been \$2.4 million, compared to cash flows of \$0.1 million used in Q4 2019. This change was primarily due to a \$1.6 million increase in proceeds received from options exercised and a decrease in repurchases of subordinate voting shares for cancellation of \$0.8 million.

For Fiscal 2020, cash flows used in financing activities totaled \$157.4 million. As a result of adopting IFRS 16 in Q1 2020, \$61.5 million of lease payments, which were presented as cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Fiscal 2020 cash flows used in financing activities would have been \$95.9 million, compared to cash flows of \$46.2 million used in Fiscal 2019. This change was primarily due to an increase in repurchases of subordinate voting shares for cancellation of \$98.2 million due to the Share Repurchase, partially offset by a \$43.7 million term loan repayment as a result of our debt refinancing in Fiscal 2019 and a \$3.6 million increase in proceeds received from options exercised in Fiscal 2020.

Cash Flows Used in Investing Activities

For Q4 2020, cash flows used in investing activities totaled \$12.1 million, compared to \$14.7 million in Q4 2019. Investing activities in Q4 2020 relate to new boutiques and boutique expansions and repositions, as well as investments in our PLM system.

For Fiscal 2020, cash flows used in investing activities totaled \$47.8 million, compared to \$62.0 million in Fiscal 2019. Investing activities in Fiscal 2020 relate to new boutiques and boutique expansions and repositions, as well as investments in our PLM system.

Free Cash Flow

The following table reconciles net cash generated from operating activities to free cash flow for the periods indicated.

	Q4 2020 13 weeks	Q4 2019 14 weeks	Fiscal 2020 52 weeks	Fiscal 2019 53 weeks
	(in thousands of Canadian dollars)			
Net cash generated from (used in) operating activities	\$ 47,898	\$ (7,386)	\$ 222,076	\$ 96,175
Interest paid	971	1,187	4,429	4,709
Net cash used in investing activities	(12,167)	(14,677)	(47,790)	(62,010)
Repayments of lease liabilities ⁽¹⁶⁾	(16,046)	-	(61,469)	-
Free cash flow	<u>\$ 20,656</u>	<u>\$ (20,876)</u>	<u>\$ 117,246</u>	<u>\$ 38,874</u>

Notes:

⁽¹⁶⁾ As a result of adopting IFRS 16 in Q1 2020, repayments of lease liabilities, which were previously presented within net cash generated from operating activities, are now presented within cash used in financing activities. Our definition of free cash flow in Q4 2020 and Fiscal 2020 includes the impact of cash lease liability repayments, which normalizes for the impact of implementation of IFRS 16.

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at March 1, 2020.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Accounts payable and accrued liabilities	57,715	-	-	57,715
Assumed interest on Term Loan ⁽¹⁷⁾	2,562	3,154	-	5,716
Term Loan ⁽¹⁸⁾	-	75,000	-	75,000
Total contractual obligations	<u>\$ 60,277</u>	<u>\$ 78,154</u>	<u>\$ -</u>	<u>\$ 138,431</u>

Notes:

⁽¹⁷⁾ Based on interest rate in effect as at March 1, 2020, and assuming no unscheduled principal payments are made prior to maturity.

⁽¹⁸⁾ The Credit Facilities require mandatory loan prepayments by Aritzia of principal and interest if certain events occur. The Credit Facilities mature on May 22, 2022 and have no scheduled principal payments prior to maturity.

Off-Balance Sheet Arrangements and Commitments

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at March 1, 2020, we had purchase obligations of \$42.2 million, which represent commitments for fabric to be used during upcoming seasons, made in the normal course of business.

We enter into trade letters of credit to facilitate the international purchase of inventory. We also enter into standby letters of credit to secure certain of our obligations, including leases and duties related to import purchases. March 1, 2020, letters of credit totaling \$28.5 million have been issued.

Other than those items disclosed here and elsewhere in this MD&A and our consolidated financial statements, we do not have any material off-balance sheet arrangements or commitments as at March 1, 2020.

Financial Instruments

From time to time, we use foreign currency forward contracts to manage our 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, depending on whether they represent assets or liabilities to us. Changes in the fair value of foreign currency forward contracts are recorded in net income. As at March 1, 2020, we did not have any outstanding foreign currency forward contracts.

During the year ended March 1, 2020, we entered into equity derivative contracts to hedge the share price exposure on our cash-settled DSUs and RSUs. These contracts were not designated as hedging instruments for

accounting purposes. Changes in the fair value of equity derivative contracts are recorded in net income. As at March 1, 2020, the equity derivative contracts had a positive fair value of \$0.7 million.

Related Party Transactions

Prior to our secondary offering in August 2018, we were ultimately controlled by Canada Retail Holdings, L.P., being our ultimate parent and the Berkshire Shareholder. Effective August 7, 2018, upon completion of the secondary offering in August 2018, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of us. Upon completion of the March 2019 Secondary Offering and Share Repurchase, on March 8, 2019, the Berkshire Shareholder sold its entire investment in us. As a result, effective March 8, 2019, we are ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company.

During the year ended March 1, 2020, we made payments of \$4.0 million (March 3, 2019 - \$4.1 million) for a lease of premises and management services and \$0.6 million (March 3, 2019 - \$0.9 million) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at March 1, 2020, \$0.2 million was included in accounts payable and accrued liabilities (March 3, 2019 - \$0.1 million) and nil was included in prepaid expenses and other current assets (March 3, 2019 - \$0.1 million).

Total reimbursements to Berkshire for travel, lodging and other costs for the year ended March 3, 2019 was \$0.1 million. As at March 3, 2019, \$2.5 million was included in accounts receivable relating to the March 2019 Secondary Offering and Share Repurchase and has since been received as of March 8, 2019. As of March 8, 2019, the Berkshire Shareholder has no remaining equity interest in us; as such, transactions with Berkshire subsequent to March 8, 2019 are not considered related party transactions.

Transactions with Key Management

Key management includes our directors and executive team. Compensation awarded to key management includes:

	Q4 2020 13 weeks		Q4 2019 14 weeks		Fiscal 2020 52 weeks		Fiscal 2019 53 weeks
	(in thousands of Canadian dollars)						
Salaries, directors' fees and short-term benefits	\$ 802	\$	980	\$	3,981	\$	3,478
Stock-based compensation expense	919		645		3,111		3,695
	<u>\$ 1,721</u>	<u>\$</u>	<u>1,625</u>	<u>\$</u>	<u>7,092</u>	<u>\$</u>	<u>7,173</u>

Critical Accounting Estimates and Judgments

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

The following discusses the most significant accounting judgments and estimates made by management in preparation of the consolidated financial statements:

Valuation of Finished Goods Inventory

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

We periodically review our inventories and make provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, we accrue for inventory shrinkage for lost or stolen items based on historical trends from actual physical inventory counts.

Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The recoverable value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

For the purposes of assessing impairment, assets are grouped at the lowest levels where there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ("cash-generating unit"). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Leases

We exercise judgment in determining the appropriate lease term on a lease by lease basis and consider all facts and circumstances that create an economic incentive to exercise a renewal or termination option. The periods covered by renewal options are included in the lease term only if we are reasonably certain we will exercise such renewal options.

We use the lessee's incremental borrowing rate when determining the carrying amount of right-of-use assets and lease liabilities, as the interest rates implicit in the lease agreements are not readily available. We determine the incremental borrowing rate of each leased asset as the rate of interest that we would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Stock-Based Compensation Expense

Stock-based compensation expense requires the use of estimates in the Black-Scholes option pricing model, including stock price volatility and the expected life of options.

Gift Card Breakage

Recognition of gift card breakage requires the use of judgment in defining our average gift card breakage rate, based on historical redemption rates. The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.

Return Allowances

Recognizing provisions for sales return allowances requires judgement in determining the return rate of merchandise based on historical patterns of returns.

Income Tax Expense

Income tax expense requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions.

Significant New Accounting Standards Recently Adopted

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17 and related interpretations. 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. IFRS 16 became effective for annual periods beginning on or after January 1, 2019. We adopted the standard on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period.

Substantially all of our existing leases are real estate leases for our boutiques, distribution centres and support offices and all were classified as operating leases prior to adoption of IFRS 16. We recognized right-of-use assets and lease liabilities for leases previously classified as operating leases under IAS 17. The depreciation expense on the right-of-use assets and the finance charge on the lease liabilities substantially replaced the lease-related expenses recorded in costs of goods sold and selling, general and administrative expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee, but changes the presentation of the operating and financing cash flows presented on our consolidated statements of cash flows.

We have elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- i) recognition exemption of short term leases;
- ii) recognition exemption of low-value leases;
- iii) grandfather prior conclusions on contracts containing leases on transition;
- iv) a single discount rate was applied to a portfolio of leases with similar characteristics on transition;
- v) initial direct costs were excluded in the measurement of the right-of-use assets on transition; and
- vi) hindsight was used in determining lease term at the date of transition.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at March 4, 2019. The right-of-use assets were measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. The cumulative adjustment was recognized directly to retained earnings at March 4, 2019.

Upon adoption of IFRS 16, we updated our lease accounting policies as follows:

We assess whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if we are reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred.

Outlook

Q1 2021 net revenues are anticipated to be in the range of \$105 million to \$110 million. This reflects two weeks of decelerating retail revenues in March prior to temporary boutique closures and strong eCommerce revenues for the quarter. While the eCommerce channel has not offset the revenue impact from our temporary boutique closures, Q1 2021 eCommerce revenue growth since our boutique closures has been in excess of 150% compared to last year.

We currently expect an Adjusted EBITDA loss in the range of (\$24) million to (\$28) million in Q1 2021. This reflects deleverage from occupancy costs and other fixed costs. In addition, the success of our online sales events resulted in higher markdowns and increased warehouse and distribution costs.

As of May 27, 2020, our net cash and cash equivalents totaled \$102 million, excluding the \$100 million fully-drawn from our Revolving Credit Facility. We are pleased with our current inventory position due to the strength of our eCommerce channel, the sell-through of marked down product throughout the first quarter, the volume from planned boutique reopenings, our ability to shift non-seasonal product into the Fall, as well as reductions to our Fall/Winter orders.

In addition to the opening of McArthur Glen in British Columbia on May 27, 2020, we currently expect to open five to six new boutiques and reposition three to four existing locations during the remainder of Fiscal 2021. However, we anticipate there could be delays subject to market conditions.

Prior to COVID-19, we were on-track to meet or exceed our Fiscal 2021 targets related to our five-year plan at the time of our initial public offering. Due to the dynamic nature of COVID-19 and its short- to medium-term effects on the consumer landscape, we are withdrawing our performance targets for Fiscal 2021 and will not be providing annual guidance at this time.

We have seen, and expect to continue to see, a direct, material adverse impact to revenue and operations as a result of COVID-19. The extent of the impact of our temporary boutique closures, including our ability to execute on our growth strategies and initiatives in the expected timeframe, will depend on future developments, including the duration of COVID-19, which are uncertain and cannot be predicted.

All figures reported above with respect to Q1 2021 are preliminary, have not been reviewed by our auditors, and are subject to change as our financial results are finalized. These preliminary results therefore constitute forward-looking statements within the meaning of applicable securities laws, are based on a number of assumptions and are subject to a number of risks and uncertainties. See "Forward-Looking Information" section of this MD&A for more information.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's AIF, which is available on SEDAR at www.sedar.com.

In addition, we are exposed to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit, liquidity and equity price risk, as summarized below. Our overall risk management program and business practices seek to minimize any potential adverse effects on our consolidated financial performance.

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

Foreign Exchange Risk

We source the majority of our raw materials and merchandise from various suppliers in Asia and Europe with the vast majority of purchases denominated in U.S. dollars. Our foreign exchange risk is primarily with respect to the U.S. dollar but we have limited exposure to other currencies as well. We may use foreign exchange forward contracts to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada.

Interest Rate Risk

We are exposed to changes in interest rates on our cash and cash equivalents, bank indebtedness and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. During the period, we had only variable interest rate debt.

Credit Risk

Credit risk refers to the possibility that we can suffer financial losses due to the failure of our counterparties to meet their payment obligations. We are exposed to minimal credit risk. We do not extend credit to clients, but do have some receivable exposure in relation to tenant improvement allowances. To reduce this risk, we enter into leases with landlords with established credit history, and for certain leases, we may offset rent payments until accounts receivable are fully satisfied. We deposit our cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. We only enter into derivative contracts with major financial institutions, as described above, for the purchase of foreign currency forward contracts.

Liquidity Risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. We manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of our revenue, income and working capital needs. The Revolving Credit Facility is used to maintain liquidity.

Equity Price Risk

We are exposed to risk arising from the cash settlement of our deferred and restricted share units, as an appreciating subordinate voting share price increases the potential cash outflow. We record a liability for the potential future settlement of our deferred and restricted share units by reference to the fair value of the liability. We may use equity derivative contracts to offset our cash flow variability of the expected payment associated with our deferred and restricted share units. We only enter into equity derivative contracts with major financial institutions.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, including the CEO and the CFO, so that they can make appropriate and timely decisions regarding public disclosure, including information contained in annual and interim filings, including the consolidated financial statements, MD&A, Annual Information Form, and other documents and external communications.

As required by CSA National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), an evaluation of the adequacy of the design (quarterly) and effective operation (annually) of the Company's disclosure controls and procedures was conducted under the supervision of management, including the CEO and CFO, as at March 1, 2020. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures were effective as at March 1, 2020.

Although the Company's disclosure controls and procedures were operating effectively as of March 1, 2020, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

Internal Control Over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. The Company's internal controls over financial reporting include, but are not limited to, detailed policies and procedures relating to financial accounting and reporting, and controls over systems that process and summarize transactions. The Company's procedures for

financial reporting also include the active involvement of qualified financial professionals, senior management and its Audit Committee.

As also required by NI 52-109, management, including the CEO and CFO, evaluated the adequacy of the design (quarterly) and the effective operation (annually) of the Company's internal control over financial reporting as defined in NI 52-109, as at March 1, 2020. In making this assessment, management, including the CEO and CFO, used the framework set forth in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at March 1, 2020.

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures. Therefore, even when determined to be designed effectively, disclosure controls and internal control over financial reporting can provide only reasonable assurance with respect to disclosure, reporting and financial statement preparation.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter and year ended March 1, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Current Share Information

As of May 27, 2020, an aggregate of 84,810,562 subordinate voting shares, 24,537,349 multiple voting shares and no preferred shares are issued and outstanding. All of the issued and outstanding multiple voting shares are, directly or indirectly, held or controlled by the principal shareholders. As of May 27, 2020, an aggregate of 7,652,938 options to acquire subordinate voting shares are outstanding.

See "Secondary Offering" and "Normal Course Issuer Bid" sections of this MD&A for further details on current share information.

Additional Information

Additional information relating to the Company, including the Company's AIF, is available on SEDAR at www.sedar.com. The Company's subordinate voting shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "ATZ".

ARITZIA

Aritzia Inc.

Consolidated Financial Statements
March 1, 2020 and March 3, 2019
(in thousands of Canadian dollars)



Independent auditor's report

To the Shareholders of Aritzia Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Aritzia Inc. and its subsidiaries (together, the Company) as at March 1, 2020 and March 3, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 1, 2020 and March 3, 2019;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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



Other information

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

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

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

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

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

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

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

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



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

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

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

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

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



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

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

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 28, 2020

Aritzia Inc.
Consolidated Statements of Financial Position
As at March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars)

	Note	March 1, 2020	March 3, 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 117,750	\$ 100,897
Accounts receivable		6,555	4,355
Income taxes recoverable	17	2,157	-
Inventory	5	94,034	112,183
Prepaid expenses and other current assets		10,880	18,422
Total current assets		231,376	235,857
Property and equipment	6	184,637	167,593
Intangible assets	7	63,867	64,427
Goodwill	7	151,682	151,682
Right-of-use assets	2, 8	380,360	-
Other assets		4,315	2,209
Deferred tax assets	2, 17	20,478	7,606
Total assets		\$ 1,036,715	\$ 629,374
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	2, 9	\$ 57,715	\$ 62,736
Income taxes payable	17	3,198	3,644
Current portion of lease liabilities	8	63,440	-
Deferred revenue		29,490	24,231
Total current liabilities		153,843	90,611
Lease liabilities	2, 8	447,087	-
Other non-current liabilities	10	9,451	69,828
Deferred tax liabilities	17	19,529	20,002
Long-term debt	11	74,740	74,624
Total liabilities		704,650	255,065
Shareholders' equity			
Share capital	13	219,050	199,517
Contributed surplus		57,221	65,806
Retained earnings	2	56,476	109,339
Accumulated other comprehensive loss		(682)	(353)
Total shareholders' equity		332,065	374,309
Total liabilities and shareholders' equity		\$ 1,036,715	\$ 629,374

Subsequent events (note 24)

Commitments (note 8 and 19)

Approved by the Board of Directors

Brian Hill Director

John Currie Director

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

Aritzia Inc.
 Consolidated Statements of Operations
 For the years ended March 1, 2020 and March 3, 2019

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

	Note	March 1, 2020	March 3, 2019
Net revenue	18	\$ 980,589	\$ 874,296
Cost of goods sold	16	577,165	531,383
Gross profit		403,424	342,913
Operating expenses			
Selling, general and administrative	16	243,362	215,297
Stock-based compensation expense	14, 16	7,790	11,540
Income from operations		152,272	116,076
Finance expense	16	28,319	4,821
Other income	16	(2,185)	(395)
Income before income taxes		126,138	111,650
Income tax expense	17	35,544	32,922
Net income		\$ 90,594	\$ 78,728
Net income per share			
Basic	15	\$ 0.84	\$ 0.70
Diluted	15	0.81	0.67
Weighted average number of shares outstanding (thousands)			
Basic	15	108,411	113,015
Diluted	15	112,128	117,358

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

Aritzia Inc.
Consolidated Statements of Comprehensive Income
For the years ended March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars)

	March 1, 2020	March 3, 2019
Net income	\$ 90,594	\$ 78,728
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	(329)	211
Comprehensive income	<u>\$ 90,265</u>	<u>\$ 78,939</u>

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

Aritzia Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 1, 2020 and March 3, 2019

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

	Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total shareholders' equity
	Shares	Amounts	Shares	Amounts				
Balance, February 25, 2018	55,756,002	\$ 40,305	56,275,341	\$ 130,825	\$ 76,522	\$ 38,613	\$ (564)	\$ 285,701
Net income	-	-	-	-	-	78,728	-	78,728
Options exercised (note 14)	-	-	2,459,988	29,721	(21,664)	-	-	8,057
Stock-based compensation expense on equity-settled plans (note 14)	-	-	-	-	10,948	-	-	10,948
Normal course issuer bid purchase of subordinate voting shares (note 13)	-	-	(549,880)	(1,334)	-	(8,002)	-	(9,336)
Share exchange at August 2018 Secondary Offering (note 13)	(5,880,000)	(4,251)	5,880,000	4,251	-	-	-	-
Share exchange prior to March 2019 Secondary Offering (note 1)	(5,344,234)	(3,863)	5,344,234	3,863	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	211	211
Balance, March 3, 2019	44,531,768	\$ 32,191	69,409,683	\$ 167,326	\$ 65,806	\$ 109,339	\$ (353)	\$ 374,309
Adjustment on adoption of IFRS 16 (note 2)	-	-	-	-	-	(42,402)	-	(42,402)
Balance, March 4, 2019	44,531,768	\$ 32,191	69,409,683	\$ 167,326	\$ 65,806	\$ 66,937	\$ (353)	\$ 331,907
Net Income	-	-	-	-	-	90,594	-	90,594
Options exercised (Note 14)	-	-	1,773,363	26,038	(14,411)	-	-	11,627
Stock-based compensation expense on equity-settled plans (Note 14)	-	-	-	-	5,826	-	-	5,826
Share exchange at March 2019 Secondary Offering (Note 13)	(14,996,824)	(10,841)	14,996,824	10,841	-	-	-	-
Shares repurchased for cancellation (notes 1 and 13)	(4,997,595)	(3,613)	(1,368,658)	(2,892)	-	(101,055)	-	(107,560)
Foreign currency translation adjustment	-	-	-	-	-	-	(329)	(329)
Balance, March 1, 2020	24,537,349	\$ 17,737	84,811,212	\$ 201,313	\$ 57,221	\$ 56,476	\$ (682)	\$ 332,065

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

Aritzia Inc.

Consolidated Statements of Cash Flows

For the years ended March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars)

	Note	March 1, 2020	March 3, 2019
Operating activities			
Net income for the year		\$ 90,594	\$ 78,728
Adjustments for:			
Depreciation and amortization	6, 7, 8	93,502	27,065
Finance expense	16	28,319	4,821
Stock-based compensation expense	14	7,790	11,540
Amortization of deferred rent and deferred lease inducements		(652)	(905)
Unrealized foreign exchange loss on forward contracts	12	-	415
Unrealized gain on equity derivative contracts	12	(650)	-
Other		(37)	-
Income tax expense	17	35,544	32,922
Proceeds from lease incentives		11,537	12,148
Cash generated before non-cash working capital balances and interest and income taxes		265,947	166,734
Net change in non-cash working capital balances	21	18,625	(39,616)
Cash generated before interest and income taxes		284,572	127,118
Interest paid		(4,429)	(4,709)
Interest paid on lease liabilities		(23,763)	-
Income taxes paid		(34,304)	(26,234)
Net cash generated from operating activities		222,076	96,175
Financing activities			
Repayment of principal on lease liabilities	8	(61,469)	(454)
Proceeds from options exercised	14	11,627	8,057
Shares repurchased for cancellation	13	(107,560)	(9,391)
Repayment of long-term debt	11	-	(43,738)
Payment of financing fees	11	-	(667)
Net cash used in financing activities		(157,402)	(46,193)
Investing activities			
Purchase of property and equipment	6	(45,591)	(56,425)
Purchase of intangible assets	7	(2,199)	(5,585)
Net cash used in investing activities		(47,790)	(62,010)
Effect of exchange rate changes on cash and cash equivalents		(31)	450
Increase (decrease) in cash and cash equivalents		16,853	(11,578)
Cash and cash equivalents - Beginning of year		100,897	112,475
Cash and cash equivalents - End of year		\$ 117,750	\$ 100,897
Supplemental cash flow information (note 21)			

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

(in thousands of Canadian dollars, unless otherwise noted)

1 Nature of operations and basis of presentation

Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the “Company”) are an innovative design house and fashion boutique. The Company conceives, creates, develops and retails fashion brands. Each of the Company’s exclusive brands has its own vision and distinct aesthetic point of view. As at March 1, 2020, the Company had 96 boutiques (March 3, 2019 – 91 boutiques).

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

On August 7, 2018, the Company completed a secondary offering (the “August 2018 Secondary Offering”) on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders. The August 2018 Secondary Offering of 6,050,000 subordinate voting shares raised gross proceeds of \$100.1 million for the selling shareholders, at a price of \$16.55 per subordinate voting share. The Company did not receive any proceeds from the August 2018 Secondary Offering. Underwriting fees were paid by the selling shareholders, and other expenses related to the August 2018 Secondary Offering of \$0.4 million were paid by the Company.

On March 8, 2019, the Company completed a secondary offering (the “March 2019 Secondary Offering”) on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders. The March 2019 Secondary Offering of 19,505,000 subordinate voting shares raised gross proceeds of \$329.6 million for the selling shareholders, at a price of \$16.90 per subordinate voting share (the “March 2019 Offering Price”). The Company did not receive any proceeds from the March 2019 Secondary Offering. Underwriting fees were paid by the selling shareholders.

Concurrent with the completion of the March 2019 Secondary Offering, on March 8, 2019, the Company also completed its repurchase of 6,333,653 subordinate voting shares and multiple voting shares (the “Shares”) for cancellation from certain shareholders, including an investment vehicle (the “Berkshire Shareholder”) managed by Berkshire Partners LLC (“Berkshire”) (the “Share Repurchase”). The purchase price per Share paid by the Company under the Share Repurchase was the same as the March 2019 Offering Price and resulted in an aggregate purchase price of \$107.0 million paid to the selling shareholders. Total expenses related to the March 2019 Secondary Offering and Share Repurchase of \$2.5 million were paid by the Company and were reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder.

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder has no remaining equity interest in the Company.

The Company’s subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol “ATZ”.

Aritzia Inc.
Notes to Consolidated Financial Statements
March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

Basis of presentation

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

The Company’s fiscal year-end is the Sunday closest to the last day of February, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2019 was a 53-week year. All references to 2020 and 2019 represent the fiscal years ended March 1, 2020 and March 3, 2019, respectively.

Seasonality of operations

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

These consolidated financial statements were authorized for issue on May 28, 2020 by the Company’s Board of Directors.

2 Significant new accounting standards

Standards recently adopted

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), which sets out a new model for lease accounting replacing IAS 17, Leases (“IAS 17”) and related interpretations. 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. IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period.

Substantially all of the Company’s existing leases are real estate leases for its boutiques, distribution centers and support offices and all were classified as operating leases prior to adoption of IFRS 16. The Company recognized right-of-use assets and lease liabilities for leases previously classified as operating leases under IAS 17. The depreciation expense on the right-of-use assets and the finance charge on the lease liabilities

Aritzia Inc.
Notes to Consolidated Financial Statements
 March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

substantially replaced the lease-related expenses recorded in costs of goods sold and selling, general and administrative expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee, but changes the presentation of the operating and financing cash flows presented on the Company's consolidated statements of cash flows.

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

- i) recognition exemption of short term leases;
- ii) recognition exemption of low-value leases;
- iii) grandfather prior conclusions on contracts containing leases on transition;
- iv) a single discount rate was applied to a portfolio of leases with similar characteristics on transition;
- v) initial direct costs were excluded in the measurement of the right-of-use assets on transition; and
- vi) hindsight was used in determining lease term at the date of transition.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at March 4, 2019. The right-of-use assets were measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. The cumulative adjustment was recognized directly to retained earnings at March 4, 2019.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	As previously reported under IAS 17, March 3, 2019	IFRS 16 transition adjustments	Balance at March 4, 2019
Assets			
Prepaid expenses and other current assets	\$ 18,422	\$ (9,510)	\$ 8,912
Right-of-use assets	-	372,563	372,563
Deferred tax assets	7,606	12,787	20,393
Total impact on assets		\$ 375,840	
Liabilities			
Accounts payable and accrued liabilities	\$ 62,736	\$ (6,446)	\$ 56,290
Income taxes payable	3,644	(2,646)	998
Lease liabilities	-	493,502	493,502
Other non-current liabilities	69,828	(64,685)	5,143
Deferred tax liabilities	20,002	(1,483)	18,519
Retained earnings	109,339	(42,402)	66,937
Total impact on liabilities and shareholders' equity		\$ 375,840	

Aritzia Inc.
Notes to Consolidated Financial Statements
March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

The following table reconciles the operating lease commitments disclosed under IAS 17 as at March 3, 2019 and lease liabilities recognized on March 4, 2019 as a result of the adoption of IFRS 16:

Operating lease commitments disclosed as at March 3, 2019	\$	675,422
Discounting		(93,048)
Adjustments as a result of a different treatment for extension options		5,378
Leases with a commencement date after March 3, 2019		<u>(94,250)</u>
Operating balance of lease liabilities as at March 4, 2019	\$	<u>493,502</u>

The weighted average discount rate reflected in the lease liability recognized on transition was 4.87%.

3 Summary of significant accounting policies

Principles of consolidation

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

Functional and presentation currency

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

Translation of other foreign currency transactions and balances

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

U.S. operations

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

Aritzia Inc.
Notes to Consolidated Financial Statements
March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and investments in money market instruments with an original maturity of less than three months. As at March 1, 2020, the Company had \$92.9 million in cash held in money market instruments classified as cash equivalents (March 3, 2019 - \$44.9 million).

Prepaid expenses and other current assets

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

Inventory

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

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

Property and equipment

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

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

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

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

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

Aritzia Inc.

Notes to Consolidated Financial Statements

March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

Intangible assets

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

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

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

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

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

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

Goodwill

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

Impairment of assets

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

Aritzia Inc.
Notes to Consolidated Financial Statements
March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

Leases

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred.

Provisions

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

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

Aritzia Inc.

Notes to Consolidated Financial Statements

March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

Financial instruments

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

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

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

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

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

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

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

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

Aritzia Inc.
Notes to Consolidated Financial Statements
March 1, 2020 and March 3, 2019

(in thousands of Canadian dollars, unless otherwise noted)

Offsetting financial instruments

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

Share capital

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

Revenue recognition

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

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

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

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

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

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Cost of goods sold

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

Selling, general and administrative

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

Store opening costs

Store opening costs are expensed as incurred.

Employee benefits

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

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

Income tax expense

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

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

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

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

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

Stock-based compensation expense

Stock Option Plans

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

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

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

Deferred Share Units and Restricted Share Units

The Company has a Director Deferred Share Unit ("DSU") Program for non employee board members and a Restricted Share Unit ("RSU") Program for employees and consultants. DSUs and RSUs are grants of notional subordinate voting shares that are redeemable for cash based on the market value of the Company's shares

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and are non-dilutive to shareholders. The cost of the service received as consideration is initially measured based on the market value of the Company's shares at the date of grant. The grant-date fair value is recognized as stock-based compensation expense with a corresponding increase recorded in other liabilities. DSUs and RSUs are remeasured at each reporting date based on the market value of the Company's shares with changes in fair value recognized as stock-based compensation expense for the proportion of the service that has been rendered at that date.

Net income per share

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

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

4 Critical accounting estimates and judgments

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

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

- The provision recorded to remeasure inventories based on the lower of cost and net realizable value (note 5), which is a critical estimate.
- Property and equipment and right-of-use asset impairment testing, which is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses, if any (note 6). These estimates include future cash flow projections, growth rates and discount rates.
- Goodwill and indefinite life intangible asset impairment testing, which requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. The recoverable value is determined using

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discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates (note 7).

- Stock-based compensation expense, which requires the use of judgment in determining the most appropriate inputs, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility and forfeiture rate (note 14).
- Gift card breakage, which requires the use of judgment in defining the Company's average gift card breakage rate, based on historical redemption rates (note 3). The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.
- Return allowances, which require judgement in determining the return rate of merchandise based on historical patterns of returns.
- Income taxes, which requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (note 17).
- Lease terms, which requires judgement on whether the Company is reasonably certain, at the lease commencement date, it will exercise available renewal or termination options, and thus include such options in the lease terms (note 8).
- Incremental borrowing rate used for calculating lease liabilities and right-of-use-assets. The Company determines the incremental borrowing rate of each leased asset as the rate of interest that the Company would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment (note 8).

5 Inventory

	March 1, 2020	March 3, 2019
Finished goods	\$ 84,601	\$ 98,324
Finished goods in transit	9,433	13,859
	<u>\$ 94,034</u>	<u>\$ 112,183</u>

The Company records a reserve to value inventory to its estimated net realizable value. This resulted in an expense in cost of goods sold of \$2.1 million for the year ended March 1, 2020 (March 3, 2019 - \$3.2 million). No inventory write-downs recorded in previous periods were reversed.

All of the Company's inventory is pledged as security for the Credit Facilities (note 11).

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6 Property and equipment

	Leasehold improvements	Furniture and equipment	Computer hardware	Computer software	Construction- in- progress	Total
Cost						
Balance, February 25, 2018	169,605	38,214	12,625	6,121	23,349	249,914
Additions	26,596	9,085	3,348	356	14,566	53,951
Transfers from construction-in-progress	24,099	6,216	290	864	(31,469)	-
Dispositions	(15,011)	(4,057)	(1,011)	(240)	-	(20,319)
Foreign exchange	2,022	407	195	(87)	1,835	4,372
Balance, March 3, 2019	\$ 207,311	\$ 49,865	\$ 15,447	\$ 7,014	\$ 8,281	\$ 287,918
Additions	26,723	6,446	2,543	338	11,707	47,757
Transfers from construction-in-progress	2,771	1,308	332	6	(4,417)	-
Dispositions	(4,696)	(1,249)	(319)	(409)	-	(6,673)
Foreign exchange	990	193	36	5	84	1,308
Balance, March 1, 2020	\$ 233,099	\$ 56,563	\$ 18,039	\$ 6,954	\$ 15,655	\$ 330,310
Accumulated depreciation						
Balance, February 25, 2018	80,369	21,816	7,765	4,292	-	114,242
Depreciation	16,389	4,677	2,859	783	-	24,708
Dispositions	(15,011)	(4,057)	(1,011)	(240)	-	(20,319)
Foreign exchange	1,169	442	57	26	-	1,694
Balance, March 3, 2019	\$ 82,916	\$ 22,878	\$ 9,670	\$ 4,861	\$ -	\$ 120,325
Depreciation	21,462	6,055	3,055	826	-	31,398
Dispositions	(4,652)	(1,246)	(319)	(409)	-	(6,626)
Foreign exchange	419	124	29	4	-	576
Balance, March 1, 2020	\$ 100,145	\$ 27,811	\$ 12,435	\$ 5,282	\$ -	\$ 145,673
Net carrying value						
Balance, March 1, 2020	\$ 132,954	\$ 28,752	\$ 5,604	\$ 1,672	\$ 15,655	\$ 184,637
Balance, March 3, 2019	\$ 124,395	\$ 26,987	\$ 5,777	\$ 2,153	\$ 8,281	\$ 167,593

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

During the year ended March 1, 2020, interest of \$165 was capitalized to assets under construction (March 3, 2019 - \$182). These interest costs relating to qualifying assets were capitalized at a weighted average rate of 3.49% (March 3, 2019 – 3.97%).

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7 Goodwill and intangible assets

	Indefinite life trade name	Definite life trade name	Trademarks	Computer software	Other intangible assets	Construction-in-progress	Total intangible assets
Cost							
Balance, February 25, 2018	46,092	17,175	1,709	26,725	3,519	-	95,220
Additions	-	-	210	3,989	-	1,198	5,397
Balance, March 3, 2019	\$ 46,092	\$ 17,175	\$ 1,919	\$ 30,714	\$ 3,519	\$ 1,198	\$ 100,617
Additions	-	-	90	304	-	2,070	2,464
Transfers from construction-in-progress	-	-	-	1,198	-	(1,198)	-
Dispositions	-	-	-	(7)	(3,519)	-	(3,526)
Balance, March 1, 2020	\$ 46,092	\$ 17,175	\$ 2,009	\$ 32,209	\$ -	\$ 2,070	\$ 99,555
Accumulated amortization							
Balance, February 25, 2018	-	10,240	1,709	18,365	3,519	-	33,833
Amortization	-	657	-	1,700	-	-	2,357
Balance, March 3, 2019	\$ -	\$ 10,897	\$ 1,709	\$ 20,065	\$ 3,519	\$ -	\$ 36,190
Amortization	-	656	-	2,368	-	-	3,024
Dispositions	-	-	-	(7)	(3,519)	-	(3,526)
Balance, March 1, 2020	\$ -	\$ 11,553	\$ 1,709	\$ 22,426	\$ -	\$ -	\$ 35,688
Net carrying value							
Balance, March 1, 2020	\$ 46,092	\$ 5,622	\$ 300	\$ 9,783	\$ -	\$ 2,070	\$ 63,867
Balance, March 3, 2019	46,092	6,278	210	10,649	-	1,198	64,427

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

Until December 19, 2005, the operations of the Company were owned by a private, closely held Canadian company. On December 19, 2005, Berkshire purchased the majority of the operations through a newly created company, Aritzia Capital Corporation (renamed to Aritzia Inc.). The acquisition transaction was treated as a business combination and the identified assets and liabilities that were acquired were measured at their acquisition date fair values, including goodwill and the indefinite life trade name. During the years ended March 1, 2020 and March 3, 2019, there were no additions to goodwill.

Goodwill and the indefinite life trade name are monitored and allocated to the group of CGUs at a country level, based on the expected future benefits to be derived. The Company allocates goodwill to its Canadian operations only, while the Company allocates the indefinite life trade name to both Canadian and U.S. operations.

In assessing goodwill and the indefinite life trade name for impairment, the Company compared the aggregate recoverable amount of the assets included in each of the CGUs to their respective carrying amounts. The recoverable amounts have been determined based on the higher of the value in use and fair value less costs of

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disposal. The Company performed its annual impairment test of goodwill and the indefinite life trade name on the first day of the fourth quarter in fiscal 2020 and fiscal 2019.

The recoverable amount of goodwill and the indefinite life trade name was based on value in use, calculated using discounted cash flows over five years with a terminal value generated from continuing use of the CGUs. Cash flows were projected based on actual operating results, annual growth assumptions of 2.00% to account for what management believes approximates inflationary increases, and terminal growth assumption of 2.00%. A pre-tax discount rate of 9.93% was used in the model. A decrease in the growth assumptions by 1.00% would not cause the carrying amount to exceed the estimated recoverable amount. A decrease of the pre-tax discount rate by 1.00% would not cause the carrying amount to exceed the estimated recoverable amount.

As at March 1, 2020 and March 3, 2019, management has determined that there was no impairment of goodwill or the indefinite life trade name.

8 Leases

The following table reconciles the change in right-of-use assets for the year ended March 1, 2020:

	Right-of-use assets
Cost	
Balance on transition, March 4, 2019	\$ 372,563
Additions, net of lease incentives received	62,840
Modifications	1,777
Foreign exchange	2,690
	<hr/>
Balance, March 1, 2020	\$ 439,870
Accumulated depreciation	
Balance on transition, March 4, 2019	\$ -
Depreciation	59,080
Modifications	(27)
Foreign exchange	457
	<hr/>
Balance, March 1, 2020	\$ 59,510
Net carrying value	
Balance on transition, March 4, 2019	\$ 372,563
Balance, March 1, 2020	\$ 380,360

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The following table reconciles the change in lease liabilities for the year ended March 1, 2020:

		Lease liabilities
Balance on transition, March 4, 2019	\$	493,502
Additions		73,518
Accretion of lease liabilities (note 16)		23,763
Repayment of interest and principal on lease liabilities		(85,232)
Modifications		1,765
Foreign exchange		3,211
		<hr/>
Balance, March 1, 2020	\$	510,527
		<hr/>
Current portion of lease liabilities	\$	63,440
Lease liabilities		447,087
		<hr/>
	\$	510,527
		<hr/>

During the year ended March 1, 2020, the Company expensed \$5.2 million of variable lease payments, which are not included in the lease liabilities (March 3, 2019 - \$5.3 million).

During the year ended March 1, 2020, the Company expensed \$1.3 million of base rent payments relating to short-term leases for which the recognition exemption was applied and these payments were not included in the lease liabilities.

The future undiscounted minimum lease commitments for the Company's leases for its premises, excluding other occupancy charges and variable lease payments, are as follows:

Less than 1 year	\$	86,179
Between 1 and 5 years		373,176
More than 5 years		182,179
		<hr/>
	\$	641,534
		<hr/>

9 Accounts payable and accrued liabilities

	March 1, 2020	March 3, 2019
Trade accounts payable	\$ 36,084	\$ 35,411
Other non-trade payables	6,856	11,687
Employee benefits payable	14,775	15,638
	<hr/>	<hr/>
	\$ 57,715	\$ 62,736
	<hr/>	<hr/>

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10 Other non-current liabilities

	March 1, 2020		March 3, 2019
Deferred lease liability (note 2)	\$ -	\$	40,256
Deferred lease inducements (note 2)	6,029		28,131
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 14)	3,061		1,097
Asset retirement obligations	361		344
	<u>\$ 9,451</u>	<u>\$</u>	<u>69,828</u>

11 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

	March 1, 2020		March 3, 2019
Term loan	\$ 75,000	\$	75,000
Less: Deferred financing fees	(260)		(376)
Long-term debt	<u>\$ 74,740</u>	<u>\$</u>	<u>74,624</u>

The term loan matures on May 22, 2022 and have no scheduled principal payments prior to maturity. Interest is paid on a monthly basis. Under the Credit Facilities, the Company has the option to borrow using Banker's Acceptance borrowings ("BA"), LIBO rate borrowings ("LIBO"), or Canadian prime rate borrowings ("Prime") plus a marginal interest rate between 0.50% and 2.50% (March 3, 2019 – 0.50% and 2.50%).

During the year ended March 1, 2020 the Company incurred \$2.9 million of interest (March 3, 2019 - \$3.4 million), at a weighted average rate of 3.49% (March 3, 2019 – 3.97%). As at March 1, 2020, the interest rate on the loan was 3.43% (March 3, 2019 – 3.57%), based on a one-month BA rate.

The term loan requires mandatory loan prepayments by the Company of principal and interest if certain events occur. As at March 1, 2020 and March 3, 2019, the Company was not required to make a mandatory loan prepayment.

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

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b) Bank indebtedness

The Company has a revolving credit facility of \$100.0 million (March 3, 2019 - \$100.0 million). The revolving credit facility bears interest at BA, LIBO or Prime plus a marginal rate between 0.50% and 2.50% (March 3, 2019 – 0.50% and 2.50%). Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan.

As at March 1, 2020 and March 3, 2019, no advances were made under this revolving credit facility.

The Company also has letters of credit facilities of \$75.0 million, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.00% and 2.50%. The amount available under these facilities is reduced to \$46.5 million (March 3, 2019 - \$31.9 million) by certain open letters of credit (note 19(b)).

The Credit Facilities are collateralized by a first priority lien on all property, plant and equipment, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. As at March 1, 2020 and March 3, 2019, the Company was in compliance with all financial covenants.

12 Derivative financial instruments

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

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

The foreign currency forward contracts generally have a term of no more than 12 months.

During the year ended March 1, 2020, the Company entered into equity derivative contracts to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts were not designated as hedging instruments for accounting purposes. During the year ended December March 1, 2020, the Company recorded an unrealized gain of \$0.7 million for the change in fair value for these contracts in the consolidated statements of operations in other (income) expense.

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13 Share capital

On August 7, 2018, in connection with the August 2018 Secondary Offering, certain selling shareholders exchanged 5,880,000 of their multiple voting shares for subordinate voting shares (note 1).

On March 5, 2019, in connection with the March 2019 Secondary Offering and Share Repurchase, certain selling shareholders exchanged 14,996,824 of their multiple voting shares for subordinate voting shares (note 1).

On July 11, 2019, the Company announced the commencement of a normal course issuer bid (the "NCIB") to repurchase and cancel up to 3,624,915 of its subordinate voting shares, representing approximately 5% of the public float, over the 12-month period commencing July 16, 2019 and ending July 15, 2020. 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 year ended March 1, 2020, the Company repurchased 32,600 subordinate voting shares for cancellation at an average price of \$15.97 (March 3, 2019 - repurchased 549,880 subordinate voting shares for cancellation at an average price of \$17.07 per subordinate voting share under the normal course issuer bid program effective during the year ended March 3, 2019).

On August 30, 2019, the Company entered into an automated share purchase plan (the "ASPP") with a designated broker for the purpose of permitting the Company to purchase its subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by the Company under the ASPP. All purchases made under the ASPP will be included in computing the number of subordinate voting shares purchased under the NCIB. The Company records a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP. As at March 1, 2020, no such liability was recorded.

As at March 1, 2020, there were 24,537,349 multiple voting shares and 84,811,212 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at March 1, 2020. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

14 Stock options

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

Legacy Plan

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

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Transactions for stock options granted under the Legacy Plan for the years ended March 1, 2020 and March 3, 2019 were as follows:

	March 1, 2020		March 3, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	5,081,717	\$ 4.64	7,748,370	\$ 4.09
Exercised	(1,325,988)	3.79	(2,345,238)	2.68
Forfeited	(130,746)	7.09	(321,415)	5.76
Outstanding, at end of year	3,624,983	\$ 4.85	5,081,717	\$ 4.64
Exercisable, at end of year	3,251,195	\$ 4.67	3,993,040	\$ 4.25

Information relating to stock options outstanding under the Legacy Plan and exercisable as at March 1, 2020 is as follows:

Exercise prices per share	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$0.01 to \$4.52	1,173,561	2.70	\$3.14	1,173,561	2.70	\$3.14
\$4.53 to \$5.24	1,226,448	2.25	\$4.95	1,226,448	2.25	\$4.95
\$5.25 to \$7.09	1,224,974	5.86	\$6.40	851,186	5.84	\$6.36
	3,624,983	3.62	\$4.85	3,251,195	3.35	\$4.67

Stock-based compensation expense in relation to the options under the Legacy Plan for the year ended March 1, 2020 was \$1.1 million (March 3, 2019 – \$2.4 million).

Option Plan

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

Transactions for stock options granted under the Option Plan for the years ended March 1, 2020 and March 3, 2019 were as follows:

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	March 1, 2020		March 3, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	4,767,727	\$ 14.81	4,947,348	\$ 14.80
Granted	385,408	18.44	305,721	16.00
Exercised	(447,375)	14.75	(114,750)	15.50
Forfeited	(547,236)	14.28	(370,592)	15.51
Outstanding, at end of year	4,158,524	\$ 15.22	4,767,727	\$ 14.81
Exercisable, at end of year	1,629,235	\$ 15.06	1,214,409	\$ 15.13

Information relating to stock options outstanding under the Option Plan and exercisable as at March 1, 2020 is as follows:

Exercise prices per share	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$12.99 to \$13.86	1,416,428	4.89	\$13.66	530,811	4.88	\$13.68
\$13.87 to \$16.04	1,664,301	3.84	\$15.22	774,932	3.83	\$15.36
\$16.05 to \$23.16	1,077,795	5.12	\$17.26	323,492	4.11	\$16.60
	4,158,524	4.53	\$15.22	1,629,235	4.23	\$15.06

The weighted average fair value of the time-based stock options granted during the year ended March 1, 2020 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	34.0% to 37.0%
Risk-free interest rate	1.5% to 1.6%
Expected life	6.0 years
Exercise price	\$17.59 to \$23.16
Weighted average fair value of stock options estimated at the date of grant	\$6.83

Stock-based compensation expense in relation to the options under the Option Plan for the year ended March 1, 2020 was \$4.8 million (March 3, 2019 - \$8.6 million).

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Director Deferred Share Unit (“DSU”) Program

Each eligible director receives a portion of his or her annual director retainer in DSUs. DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. DSUs are granted quarterly and the Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was \$2.4 million as at March 1, 2020 (March 3, 2019 - \$1.1 million), with an expense of \$1.3 million for the year ended March 1, 2020 (March 3, 2019 - \$0.5 million), recorded as stock-based compensation expense.

Transactions for DSUs granted for the years ended March 1, 2020 and March 3, 2019 were as follows:

	March 1, 2020	March 3, 2019
	Number of DSUs	Number of DSUs
Outstanding, at beginning of year	65,191	40,220
Granted	43,768	24,971
Outstanding, at end of year	108,959	65,191
Vested, at end of year	108,959	65,191

Restricted Share Unit (“RSU”) Program

Effective October 3, 2018, the Company adopted the RSU Program for employees and consultants. RSUs vest on the third anniversary of the award date and at that time, are redeemable for cash based on the market value of the Company’s shares. The Company is required to record a liability for the potential future settlement of the RSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the RSUs was \$0.7 million as at March 1, 2020 (March 3, 2019 - \$30), with an expense of \$0.6 million for the year ended March 1, 2020 (March 3, 2019 - \$30), recorded as stock-based compensation expense.

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Transactions for RSUs granted for the years ended March 1, 2020 and March 3, 2019 were as follows:

	March 1, 2020	March 3, 2019
	Number of RSUs	Number of RSUs
Outstanding, at beginning of year	38,099	-
Granted	116,364	38,099
Forfeited	(8,673)	-
Outstanding, at end of year	<u>145,790</u>	<u>38,099</u>
Vested, at end of year	-	-

15 Net income per share

a) Basic

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

	March 1, 2020	March 3, 2019
Net income attributable to shareholders of the Company	\$ 90,594	\$ 78,728
Weighted average number of shares outstanding during the year (<i>thousands</i>)	<u>108,411</u>	<u>113,015</u>
Basic net income per share	<u>\$ 0.84</u>	<u>\$ 0.70</u>

b) Diluted

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

	March 1, 2020	March 3, 2019
Net income attributable to shareholders of the Company	\$ 90,594	\$ 78,728
Weighted average number of shares for net income per diluted share (<i>thousands</i>)	<u>112,128</u>	<u>117,358</u>
Net income per diluted share	<u>\$ 0.81</u>	<u>\$ 0.67</u>

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16 Expenses by nature

	March 1, 2020	March 3, 2019
Cost of goods sold		
Inventory and product-related costs and occupancy costs	\$ 492,403	\$ 510,135
Depreciation expense (notes 2 and 8)	84,762	21,248
	<u>\$ 577,165</u>	<u>\$ 531,383</u>
	March 1, 2020	March 3, 2019
Personnel expenses		
Salaries, wages and employee benefits ¹	\$ 184,556	\$ 177,152
Stock-based compensation expense (note 14)	7,790	11,540
	<u>\$ 192,346</u>	<u>\$ 188,692</u>
	March 1, 2020	March 3, 2019
Finance expense		
Interest expense on lease liabilities (note 2 and 8)	23,763	-
Interest expense and banking fees	\$ 4,344	\$ 4,636
Amortization of deferred financing fees	212	185
	<u>\$ 28,319</u>	<u>\$ 4,821</u>
	March 1, 2020	March 3, 2019
Other (income) expenses		
Realized foreign exchange gain	\$ (964)	\$ (3,003)
Unrealized foreign exchange gain (loss)	593	(1,250)
Unrealized gain on equity derivative contracts	(650)	-
Lease exit cost ²	-	5,725
Offering transaction cost recovery	-	(171)
Interest and other income	(1,164)	(1,696)
	<u>\$ (2,185)</u>	<u>\$ (395)</u>

1 Salaries, wages and employee benefits for the year ended March 3, 2019 includes \$4.3 million of consultants and contractors related costs. For the year ended March 1, 2020, consultants and contractors related costs have been excluded from salaries, wages and employee benefits.

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

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17 Income taxes

a) Income tax expense

	March 1, 2020	March 3, 2019
Current tax expense		
Current period	\$ 35,254	\$ 31,592
Adjustments with respect to prior periods	(875)	44
	<u>34,379</u>	<u>31,636</u>
Deferred tax expense		
Origination and reversal of temporary differences	462	1,291
Adjustments with respect to prior periods	879	(44)
Changes in substantively enacted tax rates	(176)	39
	<u>1,165</u>	<u>1,286</u>
Income tax expense	<u>\$ 35,544</u>	<u>\$ 32,922</u>

b) Reconciliation of effective tax rate

The Company's income tax expense differs from that calculated by applying the combined substantively enacted Canadian federal and provincial statutory income tax rates for the years ended March 1, 2020 and March 3, 2019 of 26.8% and 26.9%, respectively, as follows:

	March 1, 2020	March 3, 2019
Income before income taxes	<u>\$ 126,138</u>	<u>\$ 111,650</u>
Expected income tax expense	\$ 33,805	\$ 30,000
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation	1,561	2,942
Charitable contributions	(74)	(269)
Foreign tax rate differences	164	238
Changes in substantively enacted tax rates	(176)	39
Other	264	(28)
Income tax expense	<u>\$ 35,544</u>	<u>\$ 32,922</u>

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c) Deferred income tax

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at March 1, 2020 and March 3, 2019 are as follows:

	March 1, 2020	March 3, 2019
Deferred tax assets		
Capital leases	36,360	-
Deferred lease liability	\$ 1,810	\$ 20,258
Stock-based compensation	637	295
Financing and share issuance costs	1,004	1,281
Accounts payable and accrued liabilities	1,494	1,254
Charitable contributions	204	153
Other	2,634	2,619
	<hr/>	<hr/>
Total deferred tax assets	44,143	25,860
Deferred tax liabilities		
Goodwill and intangible assets	(23,664)	(22,788)
Property and equipment	(19,393)	(15,427)
Other	(137)	(41)
	<hr/>	<hr/>
Total deferred tax liabilities	(43,194)	(38,256)
Net deferred tax liability	<u>\$ 949</u>	<u>\$ (12,396)</u>

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

	March 1, 2020	March 3, 2019
Deferred tax expense recorded in net income	\$ 1,166	\$ 1,286
Deferred tax expense (recovery recorded in retained earnings)	(14,271)	-
Deferred tax expense recorded in other comprehensive income (loss)	(240)	(296)
	<hr/>	<hr/>
	<u>\$ (13,345)</u>	<u>\$ 990</u>

Of the deferred income tax balances, the Company expects \$3.3 million of the deferred tax assets to be recovered within 12 months and \$1.1 million of the deferred tax liabilities to be settled within 12 months.

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

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18 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 clients, including sales through the Company's eCommerce website and sales at the Company's boutiques.

The following table summarizes net revenue by geographic location of the Company's clients:

	March 1, 2020		March 3, 2019
Canada	\$ 642,973	\$	609,070
United States	337,616		265,226
	<u>\$ 980,589</u>	\$	<u>874,296</u>

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

	March 1, 2020		March 3, 2019
Canada	\$ 483,112	\$	316,344
United States	297,434		67,358
	<u>\$ 780,546</u>	\$	<u>383,702</u>

19 Commitments and contingencies

a) Product purchase obligations

As at March 1, 2020, the Company had purchase obligations of \$42.2 million (March 3, 2019 - \$45.6 million), which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

b) Letters of credit

At March 1, 2020, the Company had open letters of credit of \$28.5 million (March 3, 2019 - \$43.1 million).

20 Related party transactions

Prior to the August 2018 Secondary Offering, the Company was ultimately controlled by Canada Retail Holdings, L.P., being the Company's ultimate parent and the Berkshire Shareholder. Effective August 7, 2018,

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upon completion of the August 2018 Secondary Offering, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of the Company. Upon completion of the March 2019 Secondary Offering and Share Repurchase, on March 8, 2019, the Berkshire Shareholder sold its entire investment in the Company. As a result, effective March 8, 2019, the Company is ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company.

The Company entered into the following transactions with related parties:

- a) During the year ended March 1, 2020, the Company made payments of \$4.0 million (March 3, 2019 - \$4.1 million), for a lease of premises and management services and \$0.6 million (March 3, 2019 - \$0.9 million) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at March 1, 2020, \$0.2 million was included in accounts payable and accrued liabilities (March 3, 2019 - \$0.1 million) and nil was included in prepaid expenses and other current assets (March 3, 2019 - \$0.1 million).
- b) Total reimbursements to Berkshire for travel, lodging and other costs for the year ended March 3, 2019 was \$0.1 million. As at March 3, 2019, \$2.5 million was included in accounts receivable relating to the March 2019 Secondary Offering and Share Repurchase (note 1) and has since been received as of March 8, 2019. As of March 8, 2019, the Berkshire Shareholder has no remaining equity interest in the Company; as such, transactions with Berkshire subsequent to March 8, 2019 are not considered related party transactions.
- c) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	March 1, 2020	March 3, 2019
Salaries, directors' fees and short-term benefits	\$ 3,981	\$ 3,478
Stock-based compensation expense	3,111	3,695
	<u>\$ 7,092</u>	<u>\$ 7,173</u>

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21 Supplemental cash flow information

	March 1, 2020	March 3, 2019
Net change in non-cash working capital balances		
Accounts receivable	\$ 82	\$ (1,545)
Inventory	18,462	(34,457)
Prepaid expenses and other current assets	(1,351)	(1,714)
Other assets	(2,186)	(217)
Accounts payable and accrued liabilities	(1,444)	(6,181)
Deferred revenue	5,062	4,498
	<u>\$ 18,625</u>	<u>\$ (39,616)</u>
Supplemental cash flow information		
Accrued purchases of property and equipment	\$ 6,168	\$ 4,470
Accrued purchases of intangible assets	266	-

22 Financial instruments and risk management

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

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

Financial instruments by category

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

	March 1, 2020	March 3, 2019
Financial assets		
Cash and cash equivalents	\$ 117,750	\$ 100,897
Accounts receivable	6,555	4,355
Equity derivative contracts	650	-
Financial liabilities		
Accounts payable and accrued liabilities	\$ 57,715	\$ 62,736
Long-term debt (net of deferred financing fees)	74,740	74,624

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

	March 1, 2020	March 3, 2019
Long-term debt (Level 2)	\$ 75,000	\$ 75,000
Equity derivative contracts (Level 2)	650	-

a) Market risk

Currency risk

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

As at March 1, 2020, a \$0.01 variation in the Canadian dollar against the U.S. dollar on net monetary accounts in U.S. dollars would, with all other variables being constant, have an approximate favourable (or unfavourable) impact of \$0.3 million on net income.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents and long-term debt. Debt issued at variable rates exposes the Company to cash flow interest rate risk. Debt issued at fixed rates exposes the Company to fair value interest rate risk. During the year, the Company had only variable rate debt. An increase (or decrease) in interest rate by 1% would result in an increase (or decrease) of \$0.8 million in interest expense on the Credit Facilities.

b) Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivable, and derivative contracts used to hedge market risks. The Company offsets credit risks associated with cash and cash equivalents by depositing its cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. The Company is exposed to credit risk on accounts receivable from its

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landlords for tenant allowances. To reduce this risk, the Company enters into leases with landlords with established credit history and, for certain leases, the Company may offset rent payments until accounts receivable are fully satisfied. The Company only enters into derivative contracts and equity derivative contracts with major financial institutions.

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company manages liquidity risk through various means, including monitoring actual and projected cash flows, taking into account the seasonality of its revenue, income and working capital needs. The Company's revolving credit facility is used to maintain liquidity. As at March 1, 2020, the Company had available credit of \$100.0 million (March 3, 2019 - \$100.0 million) under its revolving credit facility. Any amount drawn under this credit facility is presented as bank indebtedness in current liabilities based on the Company's estimate of what it expects to settle in the next 12 months. As at March 1, 2020, the Company also had available credit of \$75.0 million under trade finance agreements (March 3, 2019 – \$75.0 million), of which \$28.5 million of letters of credit were outstanding (March 3, 2019 – \$43.1 million).

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at March 1, 2020:

	Within one year	After one but not more than 5 years	After 5 years	Total
Accounts payable and accrued liabilities	\$ 57,715	\$ -	\$ -	\$ 57,715
Assumed interest on long-term debt ⁽¹⁾	2,562	3,154	-	5,716
Long-term debt	-	75,000	-	75,000
Total	\$ 60,277	\$ 78,154	\$ -	\$ 138,431

⁽¹⁾ Based on interest rates in effect as at March 1, 2020.

23 Capital management

The Company's objectives when managing capital are to:

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

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

The Company is subject to financial covenants and collateral pursuant to the Credit Facilities presented in note 11.

24 Subsequent Events

The Company evaluates events or transactions that occur after the reporting period through to the date which the financial statements are authorized for issue, for potential recognition or disclosure in its consolidated financial statements in accordance with IAS 10, Events After The Reporting Period.

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus a worldwide pandemic, which continues to spread globally. On March 16, in line with recommendations by public health officials and guidance from local government authorities, the Company temporarily closed all of its retail boutiques in Canada and the United States. As of May 28, 2020, the Company has reopened 27 boutiques in Canada and the U.S.

The Company expects the impacts of COVID-19 will have a material and adverse impact on revenue, operating cashflows and overall profitability in the next fiscal year.

Subsequent to March 1, 2020, to enhance its short-term liquidity, the Company drew down \$100.0 million, from its revolving credit facility.

Subsequent to March 1, 2020, the Company repurchased 38,664 subordinate voting shares for cancellation at an average price of \$13.51 per subordinate voting share, for total cash consideration of \$0.5 million, under the terms of the ASPP. In addition, on March 17, 2020, the Company amended the ASPP under the NCIB such that the then authorized trading window ended March 17, 2020. On May 26, 2020, the Board of Directors of the Company approved a resolution for the Company to further amend its ASPP such that no additional trading windows will be authorized, which will effectively terminate any further purchases under the ASPP.

On March 27, 2020, the United States Congress signed into law the "Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), allowing the immediate expensing of qualified leasehold improvement property purchased after December 31, 2017 and the carry back of net operating losses to prior years. These two measures will result in the Company recognizing an income taxes receivable of approximately \$5.6 million, to be applied to income taxes payable in future periods, and a decrease to total income tax expense of approximately \$1.5 million in the first quarter of next fiscal year.

Board of Directors and Executive Officers

Board of Directors

Aldo Bensadoun	Director, Member of Compensation and Nominating Committee
John Currie	Lead Independent Director, Chair of Audit Committee, Member of Compensation and Nominating Committee
Brian Hill	Founder, Chief Executive Officer and Chairman
Ryan Holmes	Director
David Labistour	Director, Member of Audit Committee
John Montalbano	Director, Member of Compensation and Nominating Committee
Marni Payne	Director, Chair of Compensation and Nominating Committee
Glen Senk	Director
Marcia Smith	Director, Member of Audit Committee
Jennifer Wong	President, Chief Operating Officer and Corporate Secretary

Executive Officers

Brian Hill	Founder, Chief Executive Officer and Chairman
Jennifer Wong	President, Chief Operating Officer and Corporate Secretary
Todd Ingledeu	Chief Financial Officer
Karen Kwan	Chief People and Culture Officer
Dave MacIver	Chief Information Officer
Pippa Morgan	Executive Vice President, Retail

Aritzia's financial reports, regulatory filings and news releases are available at sedar.com and on our website at investors.aritzia.com.

Information for Shareholders

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Annual Special Meeting of Shareholders

September 16, 2020

Virtual meeting details as outlined in Aritzia's Management Information Circular

Independent Auditors

PricewaterhouseCoopers LLP

Stock Exchange Listing

Aritzia's subordinate voting shares are traded on the Toronto Stock Exchange (TSX) under the symbol ATZ



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