

ARITZIA

Annual Report 2021



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

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

We call this Everyday Luxury.

From our Founder, Chief Executive Officer & Chairman

FISCAL 2021 HIGHLIGHTS

While Fiscal 2021 was without question the most challenging year in Aritzia's history, I'm proud of how our team has navigated the sustained uncertainty and in light of that, the exceptional results we delivered. It was a year we will remember for not only what we accomplished, but how we accomplished it. Throughout the pandemic, we protected the health and financial well-being of our people as we continued to offer our much-loved Everyday Luxury experience through engaging service, beautiful product, aspirational environments and captivating communications to our clients. Our results are a testament to the strength of our multi-channel business and the growing affinity for our brand.

Despite recurring temporary boutique closures, as well as significant occupancy restrictions and reduced boutique operating hours, net revenue decreased just 12.6% from the prior year, as we successfully pivoted our product assortment and optimized our inventory and marketing initiatives to align with our clients' stay-at-home lifestyle. Retail revenue decreased 42.4% from \$747.7 to \$430.7 million, partially offset by meaningful eCommerce revenue growth of 88.3% from \$226.6 to \$425.9 million. Importantly, eCommerce penetration surged to 50% of total net revenue, more than doubling the penetration of 23% in fiscal 2020. We continued to add new digital features and functions enhancing our client's experience. From a real estate perspective, we opened seven new boutiques and repositioned



three existing boutiques in premier real estate locations, surpassing the 100-boutique milestone. And, we generated free cash flow and improved our strong liquidity position, enabling us to continue to invest in infrastructure and talent to support our future growth and positioning us to take advantage of the boundless opportunities ahead. At the end of fiscal 2021 our cash position was \$149.2 million, compared to \$117.8 million in the prior year.

ARITZIA COMMUNITY™ | SOCIAL AND ENVIRONMENT RESPONSIBILITY

COVID-19's impact made it more important than ever that we uphold our commitments to our people and planet. We are committed to driving responsible practices across every aspect of our operations and accelerating the positive impact we have on the wider value chain.

Throughout the pandemic, we prioritized the health and safety of our people, clients and communities through industry leading health and safety protocols while ensuring income continuity to all employees impacted by boutique closures. We paid \$25 million in total from our Aritzia Community™ Relief Fund, and in doing so, deepened the loyalty of our people and created brand equity with prospective hires – we did not lay off or furlough any of our employees due to the pandemic.

We conducted our inaugural Diversity, Equity & Inclusion (DE&I) employee survey this past

year, committing \$1 million to advance our DE&I program to cultivate and celebrate diversity and inclusivity at all levels of our organization. To fulfill our commitments to our communities, we gifted 120,000 COVID-19 frontline health care heroes with custom clothing packages through the Aritzia Community™ Care Program, and supported women and girls in need through a donation of Super Puffs and the full proceeds from our incredibly successful, first ever International Women’s Day capsule collection.

We also meaningfully advanced our Community™ objectives in our supply chain and products. In fiscal 2021, we continued to uphold a positive impact on our supply chain, assessing and supporting all our tier one suppliers through our auditing program. In addition, we adopted more sustainable fabrics across a full 40% of our Spring/Summer 2021 collection, and made it easier for our clients to shop our product by their organic, recycled, and responsible forestry content by adding searchable sustainability attributes on aritzia.com.

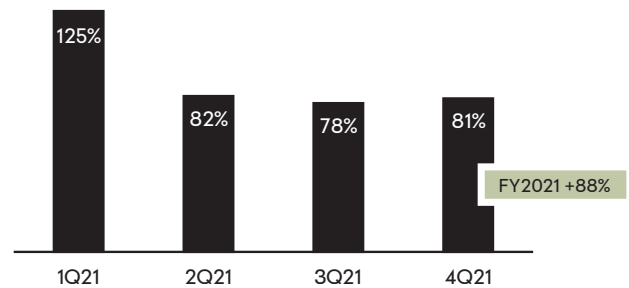
We became operationally carbon neutral through renewable energy credits and certified offsets, covering both our scope 1 and scope 2 emissions. And, Aritzia became a participant of the United Nations Global Compact, demonstrating our commitment to meet fundamental responsibilities across human rights, labour, environment and anti-corruption.

Moving forward, we will continue to develop and evolve our ESG strategies and share our progress with you.

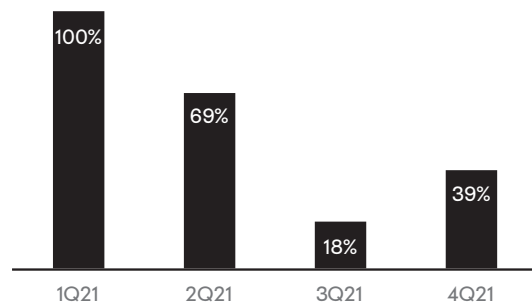
GROWTH PLAN

While the uncertainty of the pandemic remains and economic conditions vary widely, we are well-positioned. Our eCommerce business is continuing to surge and our U.S. business is flourishing. We are optimistic that with the vaccine rollout accelerating, we will see similar business recovery in retail Canada in due course. As such, we are, more than ever, putting the pedal down on investing in our four strategic growth levers that drove our growth pre-pandemic, ensured our success mid-pandemic, and will fuel our growth post-pandemic. We are confident in our ability to grow our client base and deepen our existing clients’ affinity to our brand, by continuing to deliver our much-loved Everyday Luxury experience.

Accelerated eCommerce Growth
% Revenue YoY

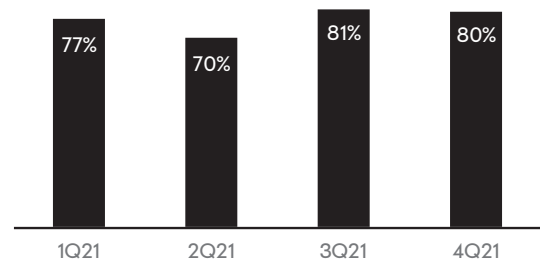


% of Boutiques Impacted by Closures¹
Maximum During Period



¹ Government mandated temporary boutique closures related to COVID-19

Boutique Productivity During the Pandemic
% LY revenue in opened Boutiques



This coming fiscal year, we have prioritized a number of initiatives to support our strategic growth levers:

eCommerce and Omni Innovation

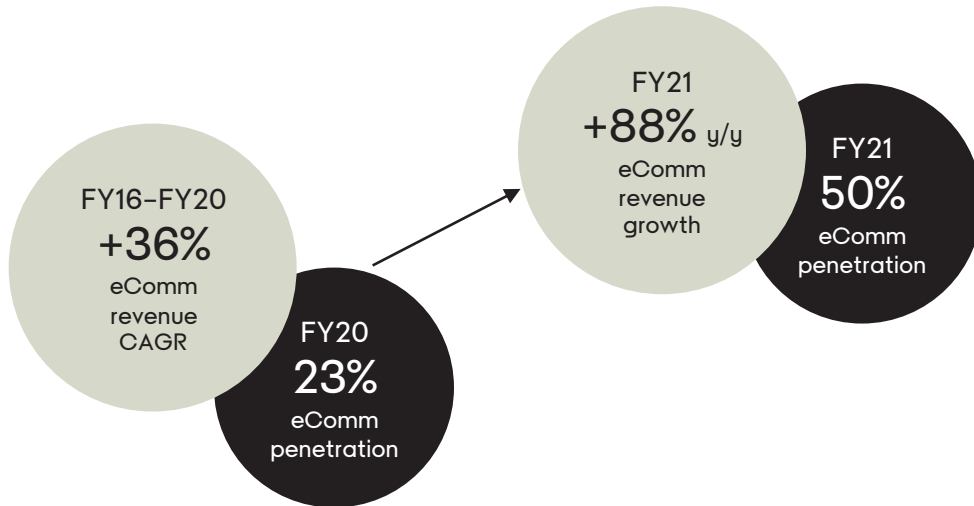
Capitalizing on our accelerated, multi-channel client relationship, we have brought forward our omni capabilities project and expect to start rolling out throughout the year store inventory visibility, buy online ship from store, and buy online pick up in store. We will also continue to invest in new digital capabilities both online and in our boutiques, including ongoing personalization developments, enhancements to our international site, and the continued rollout of our digital selling tools.

Geographic Expansion

We will continue to grow our boutique network across North America, with a focus on the United States, capitalizing on the availability of premier real estate locations. In Fiscal 2022 we plan to open six to eight new boutiques in the United States along with six expansions, with four locations in Canada and two in the United States.

Product Expansion

We will continue to expand beautiful and multi-dimensional product lines from new categories (swim and intimates) to extended depth (colour, length and inclusive sizing), and breadth (warm & hot weather, denim, and Super World). All of this contributes to our on-track five year plan to double our style count.



Brand Awareness and Customer Expansion

We have a comprehensive strategy in development to further capitalize on our exciting growth opportunities in the United States, complementing our boutique opening and expansion plans. In doing so, we expect to significantly increase our brand awareness, while also growing our bench strength in digital marketing in this flourishing market.

To support these four growth drivers, we will, as always, continue to invest in infrastructure. This includes adding to our high performance team, consistently enhancing the efficiency of our processes, enriching our technology suite, and thoughtfully expanding our Distribution Centre network to support our future growth.

We reflect on this past year as a time of determined resolve, resilience and accomplishment. Through the hard work of our team and the resilience and adaptability of our operations, we are in an extremely exciting position. With our surging eCommerce and United States businesses, we are investing strategically, capitalizing on the boundless opportunities ahead and elevating our clients' much-loved Everyday Luxury experience.

I would like to thank our investors and our almost 5,000 extraordinary team members. I am humbled and privileged to continue to lead our dedicated team - and Aritzia - out of the pandemic and into our bright future ahead.

Sincerely,



Brian Hill
Chief Executive Officer



Brands and Products

Aritzia is an innovative design house and 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 effortless appeal, a focus on fit and an of-the-moment point of view. Our expansive range of fashion apparel and 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 95% of Aritzia’s net revenue.

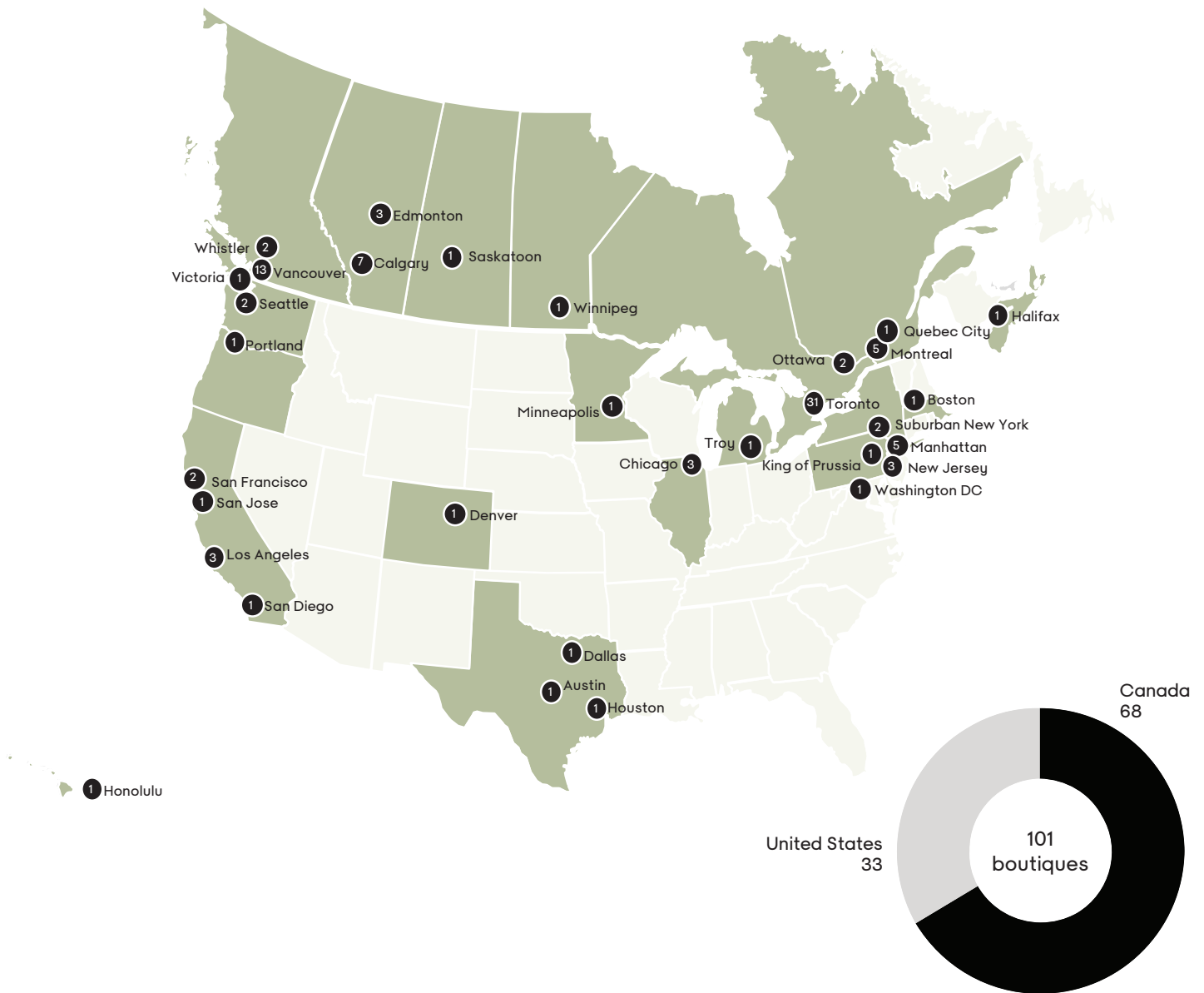
<p>BABATON</p>	<p>TEN BY BABATON</p>	<p>The Group BABATON</p>
<p>wilfred</p>	<p>wilfred free</p>	<p>SUPER WORLD™</p>
<p>Tna</p>	<p>SUNDAY BEST</p>	<p>DENIM FORUM</p>

Destinations

We connect our clients to the energy of our culture through the products we sell and the environments we create. 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.

We carefully consider each Aritzia destination – physical and digital – individually, taking care to provide our clients with aspirational shopping experiences and exceptional service at every interaction.

We believe there are synergies between our boutiques and aritzia.com, with the success of each channel benefiting the other through increased brand awareness and affinity. We continue to build out omni-channel capabilities to seamlessly provide an Everyday Luxury experience for our clients to shop wherever, whenever and however.



Future Growth

We have a thoughtful approach to growth that is focused on profitability over the long-term. Supported by accelerating trends, we continue to make strategic investments across our people, processes and technology to capitalize on the unprecedented opportunities.

1. eCommerce and Omni Innovation

Our eCommerce business was launched in fiscal 2013, quickly surpassing our growth expectations. Annual increases in online traffic drove eCommerce revenue growth of more than 36% on a compounded annual basis from fiscal 2016 to 2020. Our eCommerce business surged 88% in fiscal 2021 to comprise 50% of net revenues, more than doubling the penetration of 23% in the prior year. Going forward, we will continue to invest in digital capabilities to provide a seamless Everyday Luxury experience for our clients to drive accelerated eCommerce and omni-channel growth.

2. Geographic Expansion

Operating as our most effective yet profitable marketing tool, boutique openings are a key pillar of Aritzia's growth strategy. Our boutiques drive sales, build brand awareness, propel significant client acquisition, and fuel our eCommerce channel. Payback on our new boutiques continue to accelerate, trending between 18 to 24 months.

As many businesses across North America shutter their doors, we are seeing unprecedented opportunities for us to acquire prime real estate. We believe that we have a meaningful opportunity to expand our boutique network, particularly in the United States, where we have identified approximately 100 locations that meet our exacting criteria. We will continue to take a disciplined approach to boutique openings, with a fastidious focus on location selectivity.



3. Product Expansion

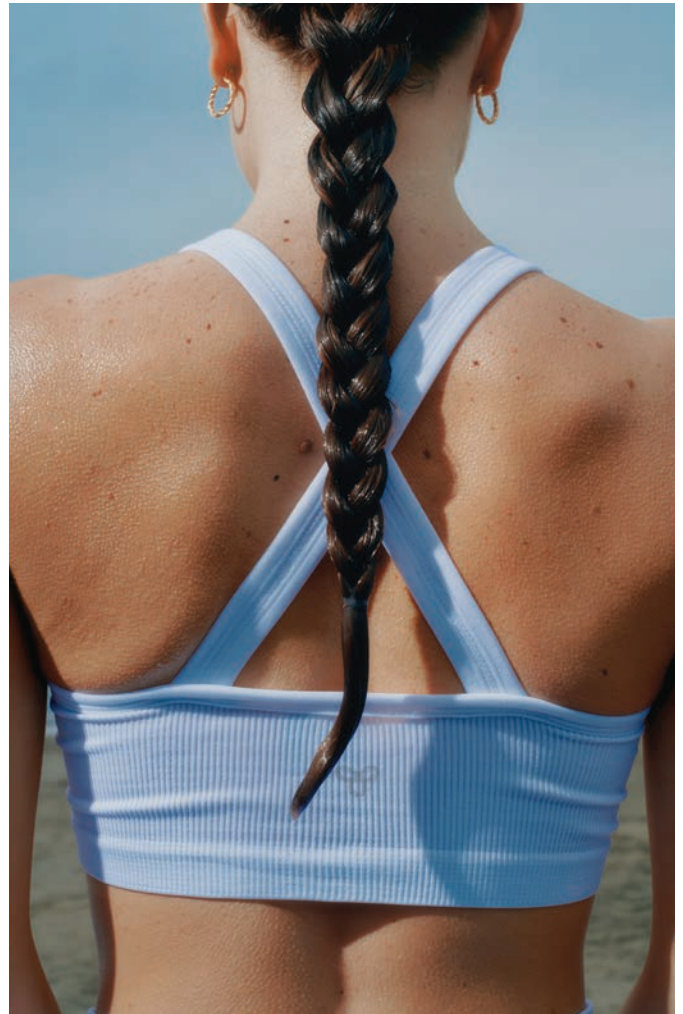
Product innovation is a core competency for us and has been critical to our success. We always look beyond what 'is' to what 'could be' by continuously monitoring the evolving fashion landscape, our brand portfolio, our product mix and our client base to identify opportunities for innovation and growth. With the accelerated shift to digital and as our eCommerce channel reaches critical mass, our product strategy can now be based on the unlimited opportunities that online provides. We see meaningful potential to double our product offering by fiscal 2025 through:

- Depth (sizes, lengths, colours)
- Breadth (new style development)
- New categories (including swim and intimates)

We believe our innovation strategy drives traffic to our boutiques and aritzia.com and increases brand loyalty by guiding our mix of brands and products to meet our clients' needs. It also allows us to reinforce the appeal of our brands across a broader range of fashion needs, increasing our addressable market and 'share of our client's closet'.

4. Brand Awareness and Customer Expansion

Increased brand awareness is driven through real estate and marketing strategies designed to attract new clients and deepen loyalty of existing clients. Our premier real estate locations, aspirational boutique designs and high-touch service, highlight unique ethos and aesthetic of our exclusive brands and Aritzia's overall dedication to delivering Everyday Luxury. We extend this experience online, through digital marketing, reaching beyond our retail footprint to acquire customers in relevant segments and keep them engaged with digitally native content experiences.



ENVIRONMENT, SOCIAL & GOVERNANCE

Our Philosophy

Aritzia recognizes that Environmental, Social, and Governance (ESG) factors are integral to our long-term success. As a leader in the industry, we have a responsibility to people and the planet. Our business model has always been centred around delivering quality products that endure well beyond one or two seasons — however, we can do more. In order to deliver Everyday Luxury, today and tomorrow, our goal is to continue strengthening our environmental and social contributions to accelerate the positive impact Aritzia is making across our operations and wider value chain.

We recognize the important responsibility we have as a global corporate citizen. We're committed to supporting all the people our business touches while protecting the planet that our community and our business rely on.

Our Approach

Aritzia's material ESG risks and priorities are distributed across our value chain from raw material sourcing, third party manufacturing suppliers, product use and end-of-life impact, and across our operations from boutiques and offices to our distribution centres. ESG priorities are embedded throughout our organization with leadership shared across multiple departments, including Sustainability, People and Culture, Employee Experience and Corporate Giving. To ignite meaningful change, we've taken an evidence-based approach with a focus on driving long-term impact. To inform our ESG strategy, we've taken the following steps:

1. Conducted a materiality analysis across our value chain, using frameworks such as SASB's Apparel, Accessories and Footwear Standard, UN Sustainable Development Goals, UN Global Compact, TCFD and others, to understand our impact.
2. Identified ongoing opportunities for improvements, both long and short term, through a detailed Environmental Organizational Life Cycle Assessment (O-LCA), a labour rights assessment of our global supply chain and regular 'Aritzia Asks' engagement surveys for our employees, among other approaches.
3. Action positive and meaningful change based on identified risks and our priorities.
4. Built a roadmap for the future that addresses our impact and aligns with our business.

Our Priorities

Aritzia is committed to driving responsible business practices through our own operations in addition to upholding human rights and environmental stewardship in both our operations and across our supply chain. We are focusing our strategy on the priorities below to mitigate our material impacts:

1. Attract, develop and retain a high performing team of world class talent
2. Deliver positive social impact through our products and supply chain
3. Drive sustainable practices and solutions across the product lifecycle
4. Build sustainable and efficient infrastructure across our boutiques, cafes, offices, DCs and logistics





ESG Achievements in Fiscal 2021

- Evaluated all our tier 1 suppliers against Aritzia's social and environmental criteria through our social impact monitoring program and the Higg Facilities Environment Module to ensure alignment with business requirements;
- Adopted more sustainable fabrics across 40% of our Spring/Summer 2021 collection, including organic and recycled cotton, recycled polyester and nylon, amongst others;
- Became operationally carbon neutral through the purchase of renewable energy credits for our electricity usage and Verified Carbon Standard certified offsets for our fleet vehicle gas and natural gas consumption, accounting for our scope 1 and 2 greenhouse gas emissions;
- Completed our first CDP Climate Change submission (TCFD-aligned);
- Ensured financial continuity for our people impacted by boutique closures through the COVID-19 pandemic, paid \$25 million through the Aritzia Community™ Relief Fund;
- Conducted Aritzia's inaugural diversity, equity & inclusion (DE&I) focused employee survey and committed a \$1 million investment in the development of our DE&I strategy, including the formation of an Executive Diversity & Inclusion Committee led by our President and Chief Operating Officer;
- Delivered the Aritzia Community™ Care Program to support our COVID-19 frontline health care heroes in Canada and the United States.

Disclosure and Reporting

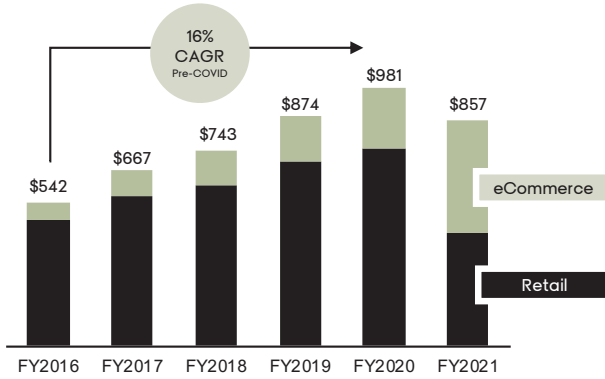
We've begun to increase our ESG disclosure through the completion of Aritzia's first CDP Climate Change report and by joining the UN Global Compact. As an industry leader, we can make a difference and are committed to accelerating our ESG commitments and performance. We will always seek to do the right thing for our people and the planet as this is sound management and a strategic opportunity for our organization. We'll continue to transparently share information as we continue this journey.

For further details, please visit:

<https://www.aritzia.com/en/aritzia/corporateresponsibility/sustainability.html>

Proven Results

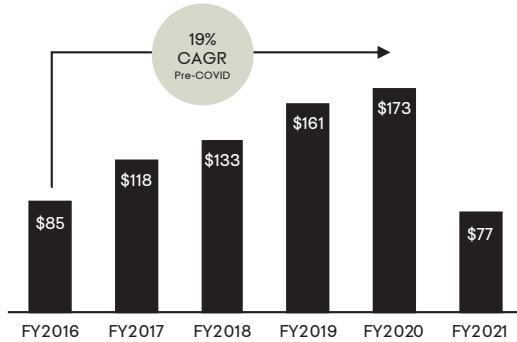
Net Revenue (\$ millions)



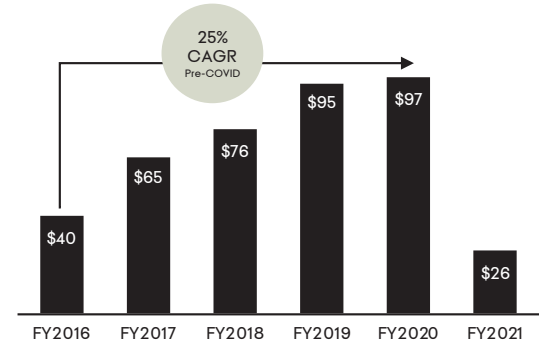
Comparable Sales (%)^{1,4}

	Q1	Q2	Q3	Q4	Annual
FY2016	26.0%	20.9%	15.5%	9.3%	16.8%
FY2017	12.8%	16.4%	15.1%	12.3%	14.1%
FY2018	9.3%	5.4%	6.3%	6.0%	6.6%
FY2019	10.9%	11.5%	12.9%	5.5%	9.8%
FY2020 ³	7.9%	8.4%	5.1%	8.9%	7.6%

Adjusted EBITDA^{2,3} (\$ millions)



Adjusted Net Income (\$ millions)



Margin 15.7% 17.6% 17.9% 18.4% 17.6% 9.0%

Margin 7.4% 9.7% 10.2% 10.8% 9.9% 3.0%

¹ Our comparable sales growth calculation excludes the impact of foreign currency fluctuations by applying the prior year's average quarterly exchange rate to both current year and prior year comparable sales

² Figures adjusted to exclude stock-based compensation, unrealized (gains) losses on equity derivatives and forward contracts, a one-time lease exit cost and offering transaction costs recoveries

³ We adopted IFRS 16 Leases, replacing IAS 17, for the annual reporting period beginning on March 4, 2019. For analysis purposes only, all figures are shown as if we continued to report under IAS 17 and did not adopt IFRS 16. See Disclaimer - Non-IFRS Measures including Retail Industry Metrics

⁴ As temporary boutique closures from COVID-19 have resulted in all boutiques being removed from our comparable store base, comparable sales growth is not currently representative of the underlying trends of our business. We do not believe this metric is currently useful to investors in understanding performance and therefore have not reported this metric since Q1 2021.

Operational and Financial Summary

(in thousands of Canadian dollars, unless otherwise noted)	Fiscal 2021 52 Weeks (IFRS 16) ⁽¹⁾	Fiscal 2020 52 Weeks (IFRS 16) ⁽¹⁾	Fiscal 2019 53 Weeks (IAS 17)	Fiscal 2018 52 Weeks (IAS 17)	Fiscal 2017 52 Weeks (IAS 17)
Financial Summary:					
Net revenue	\$ 857,323	\$ 980,589	\$ 874,296	\$ 743,267	\$ 667,181
Cost of goods sold	544,818	577,165	531,383	447,776	401,658
Gross profit	312,505	403,424	342,913	295,491	265,523
Operating expenses					
Selling, general and administrative	250,726	243,362	215,297	183,857	178,773
Stock-based compensation expense	10,691	7,790	11,540	17,240	103,044
Income from operations	51,088	152,272	116,076	94,394	(16,294)
Finance expense	28,420	28,319	4,821	5,221	10,455
Other income	(3,534)	(2,185)	(395)	1,890	(1,362)
Income before income taxes	26,202	126,138	111,650	87,283	(25,387)
Income tax expense	6,975	35,544	32,922	30,190	30,722
Net income	\$ 19,227	\$ 90,594	\$ 78,728	\$ 57,093	\$ (56,109)
Adjusted EBITDA	\$ 76,812	\$ 172,572	\$ 161,045	\$ 132,716	\$ 117,664
Adjusted Net Income	\$ 26,028	\$ 97,388	\$ 94,543	\$ 75,934	\$ 64,627
Adjusted Net Income per Diluted Share	\$ 0.23	\$ 0.87	\$ 0.81	\$ 0.65	\$ 0.62
Weighted average number of diluted shares outstanding (thousands)	112,844	112,128	117,358	116,280	104,787
Cash and cash equivalents	\$ 149,147	\$ 117,750	\$ 100,897	\$ 112,475	\$ 79,527
Capital expenditures (net of proceeds from leasehold inducements)	\$ 42,529	\$ 36,253	\$ 49,862	\$ 59,253	\$ 23,072
Free cash flow	\$ 36,306	\$ 117,246	\$ 38,874	\$ 44,342	\$ 87,924
Percentage of Net Revenue:					
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	63.5%	58.9%	60.8%	60.2%	60.2%
Gross profit	36.5%	41.1%	39.2%	39.8%	39.8%
Operating expenses					
Selling, general and administrative	29.2%	24.8%	24.6%	24.7%	26.8%
Stock-based compensation expense	1.2%	0.8%	1.3%	2.3%	15.4%
Income from operations	6.0%	15.5%	13.3%	12.7%	(2.4%)
Finance expense	3.3%	2.9%	0.6%	0.7%	1.6%
Other income	(0.4%)	(0.2%)	(0.0%)	0.3%	(0.2%)
Income before income taxes	3.1%	12.9%	12.8%	11.7%	(3.8%)
Income tax expense	0.8%	3.6%	3.8%	4.1%	4.6%
Net income	2.2%	9.2%	9.0%	7.7%	(8.4%)
Adjusted EBITDA	9.0%	17.6%	18.4%	17.9%	17.6%
Adjusted Net Income	3.0%	9.9%	10.8%	10.2%	9.7%
Other Performance Metrics:					
Year-over-year net revenue (decline) growth	(12.6%)	12.2%	17.6%	11.4%	23.0%
Comparable sales growth ⁽²⁾	n/a	7.6%	9.8%	6.6%	14.1%
Boutiques:					
Number of boutiques, end of period	101	96	91	85	79
New boutiques	7	5	7	6	5
Boutiques repositioned into a flagship boutique	(1)	-	(1)	-	-
Boutique closed due to mall redevelopment	(1)	-	-	-	-
Boutiques expanded or repositioned	3	3	4	7	5

⁽¹⁾ 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 Fiscal 2021 and Fiscal 2020 reflect lease accounting under IFRS 16. Comparative figures for Fiscal 2019, Fiscal 2018 and Fiscal 2017 have not been restated and continue to be reported under IAS 17.

Management's Discussion & Analysis



ARITZIA

Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended February 28, 2021

May 11, 2021

The following Management's Discussion and Analysis ("MD&A") dated May 11, 2021 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 February 28, 2021. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for Fiscal 2021 (as hereinafter defined).

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, our ability to sustain momentum in our eCommerce business, the impact of health and safety measures including capacity restrictions and mandated closures on retail performance and labour and operating expenses, our ability to drive digital innovation of eCommerce and Omni, geographic expansion, product development, and brand awareness, our ability to weather further uncertainty, achieve meaningful growth and take advantage of opportunities, our ability to invest in critical infrastructure across our people, processes and technology, our outlook for net revenue growth in the first quarter of fiscal 2022. 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.

Implicit in forward-looking statements in respect of the Company's expectations for net revenue growth of approximately 110% (approximately \$234M) for the first quarter of fiscal 2022 as compared to last year, are certain current assumptions including the continued acceleration of sales in the United States both in retail and eCommerce channels as well as continued momentum of the Company's eCommerce business in Canada. The Company's forward-looking information is also based upon assumptions regarding the overall retail environment, the COVID-19 pandemic and related health and safety protocols and currency exchange rates for fiscal 2022. Specifically, we have assumed the following exchange rates for fiscal 2022: USD:CAD = 1:1.25.

Given this unprecedented period of uncertainty, there can be no assurances regarding: (a) the limitations or restrictions that may be placed on servicing our clients in reopened boutiques 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) general economic conditions related to COVID-19 and impacts to consumer discretionary spending and shopping habits; (e) credit, market, currency, interest rates, operational, and liquidity risks generally; and (f) other risks inherent to our business and/or factors beyond our 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 11, 2021 for Fiscal 2021 (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.

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. 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 2021” are to our 13-week period ended February 28, 2021, to “Q4 2020” are to our 13-week period ended March 1, 2020 and to “Q1 2022” are to our 13-week period ending May 30, 2021. All references in this MD&A to “Fiscal 2021” are to our 52-week period ended February 28, 2021, 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 2022” are to our 52-week period ending February 27, 2022.

The audited annual consolidated financial statements and accompanying notes for Fiscal 2021 and this MD&A were authorized for issue by the Company’s Board of Directors.

OVERVIEW

Our vision is to be the most relevant and loved fashion destination for women all over the world. We believe in fashion that inspires and is both beautiful and beautifully made. We create aspirational environments and experiences, offer personalized and engaging service that delights, and engage through captivating communications. We call this Everyday Luxury.

Aritzia is an innovative design house and fashion boutique. We conceive, create, develop and retail fashion brands, each with its own vision and distinct aesthetic point of view, and all with a depth of design and quality that provide compelling value. As a group, they are united by an effortless appeal, a focus on fit and an of-the-moment point of view.

Founded in Vancouver in 1984, Aritzia has more than 100 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 33 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 carefully consider each Aritzia destination – physical and digital – individually, taking care to provide our clients with aspirational shopping experiences and exceptional service at every interaction.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a worldwide pandemic. Since the outbreak, Aritzia’s priorities have been the well-being of our people, clients and supporting the community while safeguarding the long-term financial strength of our business. In order to ensure the health and safety of our people, clients and communities, we implemented stringent protocols across our boutiques, distribution centre and support offices.

First quarter Fiscal 2021

Aritzia experienced a significant decline in sales during the first two weeks of March 2020, leading up to the temporary closure of all our 96 retail boutiques in Canada and the United States. We immediately focused our efforts on driving revenue through aritzia.com and took swift action to manage expenditures, enhance short-term liquidity and protect our cash position.

During the initial temporary closures period, Aritzia saw favourable response to our beautifully designed Spring/Summer product and strategic online sales events, resulting in eCommerce revenue growth in excess of 125% through to the end of the first quarter 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 client expectations. By immediately calibrating existing inventory and planned deliveries during the initial temporary closures period, we successfully capitalized on the shift in client demand for product relevant to stay-at-home measures while minimizing our inventory exposure.

Aritzia formed a COVID-19 Business Continuity Committee (the “Continuity Committee”) to manage the provisions of our COVID-19 business continuity protocols. The Continuity Committee designed tools and standards to assure the effective and on-time management of emerging health and safety incidents; implemented a contact tracing program in accordance with World Health Organization and local government guidelines to manage emerging COVID-19 cases and exposures; and, proactively established workplace closing/reopening protocols to enhance our responsiveness to government mandated closures. The Continuity Committee’s ensures that we remain focused on our operations and the safety of our people, clients, and communities.

Following a brief period of delay related to investment activities, Aritzia recommenced capital expenditures on boutique construction in the second half of the first quarter.

Second quarter Fiscal 2021

At the start of the second quarter, 31% of Aritzia’s boutiques were reopened, with 96% of boutiques reopened by the end of the quarter. Operating under occupancy restrictions and reduced operating hours, sales for our reopened boutiques trended on average at 70% of last year’s productivity levels for the quarter. The strength of our eCommerce business continued, delivering 82% revenue growth compared to the second quarter last year. The ongoing recovery of Aritzia’s business, coupled with highly effective inventory management, resulted in the successful sell through of the majority of our Spring/Summer inventory while maintaining markdown levels consistent with the prior year. Importantly, this enabled us to enter the Fall/Winter season with the appropriate levels of inventory and a balanced product assortment.

Third quarter Fiscal 2021

At the start of the third quarter, 96% of Aritzia’s boutiques were reopened. The resurgence of COVID-19 led to the government-mandated reclosure of 18 boutiques on November 23, 2020. As a result, 82% of our boutiques were open at the end of the third quarter. Third quarter sales for our reopened boutiques trended on average at 81% of last year’s productivity levels despite significant occupancy restrictions and limited operating hours. Clients’ enthusiastic response to our Fall/Winter product assortment drove continued accelerated momentum of our eCommerce channel, which delivered 79% revenue growth compared to last year.

Fourth quarter Fiscal 2021

At the start of the fourth quarter, 18 boutiques were temporarily closed, and during the fourth quarter, 39 of Aritzia’s boutiques were temporarily closed due to government-mandated closures in Ontario and Quebec. At the end of the fourth quarter 18 of our boutiques remained temporarily closed. During the fourth quarter, enthusiastic client response to our product assortment saw opened boutiques perform at 80% of last year’s sales productivity despite ongoing capacity restrictions while continued momentum delivered 81% eCommerce revenue growth.

Since the onset of the COVID-19 pandemic, we undertook prudent measures to enhance our short-term liquidity and protect our cash position throughout this pandemic. Our efforts include:

- Optimizing inventory and planned deliveries to capitalize on the shift in demand while minimizing our inventory exposure;
- Continuing to leverage applicable government business support programs, when qualified, for COVID-19;
- Driving additional cost reductions by minimizing non-essential operating costs and ongoing negotiations with suppliers and landlords for concessions; and
- Extending payment terms where possible.

In addition, we undertook several initiatives in support of our people and communities:

- Paid \$25 million through the Aritzia Community™ Relief Fund to ensure financial continuity for our people during boutique closures and to enable seamless boutique reopenings;
- Gifted 110,000 Aritzia Community™ clothing packages to frontline healthcare heroes in Canada and the United States;
- Committed \$1 million towards internal Diversity and Inclusion initiatives; and
- Donated \$100,000 to Black Lives Matter and the NAACP.

While the continuing impact of the pandemic on the Company's business remains unclear, we believe that our increasing revenue combined with our cost management will partially mitigate these risks. The extent of the impact of COVID-19 on future periods will depend on future developments, including the duration or resurgence of the pandemic, the related government responses and any resulting health and safety measures or directives put in place by public health authorities, which are uncertain and cannot be predicted. Aritzia believes its eCommerce business is well-positioned to moderate these impacts.

See also the "Forward-Looking Information" and "Risk Factors" sections of this MD&A and in our AIF.

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 table entitled "Selected Consolidated Financial Information" for reconciliations of non-IFRS measures with the most directly comparable IFRS measure.

Fourth Quarter

- **Net revenue** decreased 2.9% to \$267.5 million from Q4 last year, despite the reclosure of 39 of 101 boutiques for the majority of the quarter
- **eCommerce revenue** growth of 81.1% compared to Q4 last year
- **Sales productivity** of reopened boutiques trended on average at 79.6% of last year's levels despite severe occupancy restrictions and limited operating hours
- **Gross profit margin**⁽¹⁾ increased to 38.5% from 37.3% in Q4 last year
- **Adjusted EBITDA**⁽¹⁾ decreased to \$35.2 million from \$42.4 million in Q4 last year
- **Adjusted Net Income**⁽¹⁾ of \$0.16 per diluted share, compared to \$0.21 per diluted share in Q4 last year

Strategic Accomplishments for Fiscal 2021

- Successfully navigated COVID-19 to-date, prioritizing the health and safety of our people, clients and communities while taking swift action to position Aritzia to take advantage of the unprecedented opportunities ahead
- Accelerated momentum drove eCommerce revenue growth of 88.3% to comprise 49.7% of net revenues
- Drove revenue by pivoting product assortment and optimizing inventory to align with stay-at-home lifestyle
- Opened seven new boutiques and repositioned three existing boutiques in premier real estate locations
- Launched the Clientele App, Product Lifecycle Management system, Fit Analytics, Afterpay and other digital capabilities as we accelerated investments across infrastructure and talent to support future growth
- Advanced strategic initiatives to support Aritzia's communities, cultivate diversity and enhance sustainability

⁽¹⁾ See the sections below entitled "How We Assess the Performance of our Business" and "Selected Consolidated Financial Information" for further details concerning gross profit margin, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per diluted share and for a reconciliation to the most comparable IFRS measure.

OUTLOOK

The first quarter of fiscal 2022 is off to a strong start. Aritzia is on-track to deliver net revenue growth of approximately 110% in the first quarter compared to last year, implying a target of approximately \$234 million. This reflects a previously unseen acceleration of sales in the United States in both its retail and eCommerce channels, as well as, continued momentum of the Company's eCommerce business in Canada. This revenue target for the first quarter is in spite of 50% or 34 of the Company's boutiques in Canada mandated to reclose starting on April 8, 2021 and expected to remain closed for the remainder of the quarter.

SELECTED 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 2021 and Q4 2020 is unaudited.

Selected Consolidated Financial Information

(in thousands of Canadian dollars, unless otherwise noted)

	Q4 2021 13 Weeks	Q4 2020 13 Weeks	Fiscal 2021 52 Weeks	Fiscal 2020 52 Weeks
Financial Summary:				
Net revenue	\$ 267,525	\$ 275,430	\$ 857,323	\$ 980,589
Cost of goods sold	164,600	172,589	544,818	577,165
Gross profit	102,925	102,841	312,505	403,424
Operating expenses				
Selling, general and administrative	72,357	64,331	250,726	243,362
Stock-based compensation expense	4,193	2,411	10,691	7,790
Income from operations	26,375	36,099	51,088	152,272
Finance expense	6,464	6,914	28,420	28,319
Other income	(2,129)	(1,354)	(3,534)	(2,185)
Income before income taxes	22,040	30,539	26,202	126,138
Income tax expense	5,970	8,824	6,975	35,544
Net income	\$ 16,070	\$ 21,715	\$ 19,227	\$ 90,594
Adjusted EBITDA ⁽²⁾	\$ 35,205	\$ 42,375	\$ 76,812	\$ 172,572
Adjusted Net Income ⁽²⁾	\$ 17,678	\$ 23,428	\$ 26,028	\$ 97,388
Adjusted Net Income per Diluted Share ⁽²⁾	\$ 0.16	\$ 0.21	\$ 0.23	\$ 0.87
Weighted average number of diluted shares outstanding (thousands)	114,052	113,120	112,844	112,128
Cash and cash equivalents	\$ 149,147	\$ 117,750	\$ 149,147	\$ 117,750
Capital cash expenditures (net of proceeds from leasehold inducements)	\$ 9,415	\$ 9,732	\$ 42,529	\$ 36,253
Free cash flow ⁽²⁾	\$ (24,936)	\$ 20,656	\$ 36,306	\$ 117,246
Percentage of Net Revenue:				
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	61.5%	62.7%	63.5%	58.9%
Gross profit	38.5%	37.3%	36.5%	41.1%
Operating expenses				
Selling, general and administrative	27.0%	23.4%	29.2%	24.8%
Stock-based compensation expense	1.6%	0.9%	1.2%	0.8%
Income from operations	9.9%	13.1%	6.0%	15.5%
Finance expense	2.4%	2.5%	3.3%	2.9%
Other income	(0.8%)	(0.5%)	(0.4%)	(0.2%)
Income before income taxes	8.2%	11.1%	3.1%	12.9%
Income tax expense	2.2%	3.2%	0.8%	3.6%
Net income	6.0%	7.9%	2.2%	9.2%
Adjusted EBITDA ⁽²⁾	13.2%	15.4%	9.0%	17.6%
Adjusted Net Income ⁽²⁾	6.6%	8.5%	3.0%	9.9%
Other Performance Metrics:				
Year-over-year net revenue (decline) growth	(2.9%)	6.3%	(12.6%)	12.2%
Comparable sales growth ⁽²⁾	n/a	8.9%	n/a	7.6%
Boutiques:				
Number of boutiques, end of period	101	96	101	96
New boutiques	1	2	7	5
Repositioned to a flagship boutique	-	-	(1)	-
Boutique temporarily closed due to mall redevelopment	-	-	(1)	-
Boutiques expanded or repositioned	-	-	3	3

⁽²⁾ Please see "How We Assess the Performance of Our Business" section of this MD&A for further details on these financial and operating measures.

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.

Reconciliation to Non-IFRS Measures

(in thousands of Canadian dollars, unless otherwise noted)

	Q4 2021 13 Weeks	Q4 2020 13 Weeks	Fiscal 2021 52 Weeks	Fiscal 2020 52 Weeks
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:				
Net income	\$ 16,070	\$ 21,715	\$ 19,227	\$ 90,594
Depreciation and amortization	27,133	24,134	105,149	93,502
Finance expense	6,464	6,914	28,420	28,319
Income tax expense	5,970	8,824	6,975	35,544
EBITDA	55,637	61,587	159,771	247,959
Adjustments to EBITDA:				
Stock-based compensation expense	4,193	2,411	10,691	7,790
Rent impact from IFRS 16, Leases ⁽³⁾	(21,985)	(20,973)	(89,949)	(82,527)
Unrealized gain on equity derivative contracts	(2,640)	(650)	(3,701)	(650)
Adjusted EBITDA	\$ 35,205	\$ 42,375	\$ 76,812	\$ 172,572
Adjusted EBITDA as a Percentage of Net Revenue	13.2%	15.4%	9.0%	17.6%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	\$ 16,070	\$ 21,715	\$ 19,227	\$ 90,594
Adjustments to net income:				
Stock-based compensation expense	4,193	2,411	10,691	7,790
Unrealized gain on equity derivatives contracts	(2,640)	(650)	(3,701)	(650)
Related tax effects	55	(48)	(189)	(346)
Adjusted Net Income	\$ 17,678	\$ 23,428	\$ 26,028	\$ 97,388
Adjusted Net Income as a Percentage of Net Revenue	6.6%	8.5%	3.0%	9.9%
Weighted Average Number of Diluted Shares Outstanding (thousands)	114,052	113,120	112,844	112,128
Adjusted Net Income per Diluted Share	\$ 0.16	\$ 0.21	\$ 0.23	\$ 0.87

Note (3) Rent Impact from IFRS 16, Leases

	Q4 2021 13 Weeks	Q4 2020 13 Weeks	Fiscal 2021 52 Weeks	Fiscal 2020 52 Weeks
Depreciation and amortization of right-of-use assets	\$ (16,410)	\$ (15,117)	\$ (66,278)	\$ (59,080)
Finance expense, related to leases	(5,575)	(5,856)	(23,671)	(23,447)
Rent impact from IFRS 16, Leases	\$ (21,985)	\$ (20,973)	\$ (89,949)	\$ (82,527)

(in thousands of Canadian dollars)

Reconciliation of Comparable Sales to Net Revenue:

	Q4 2021 13 Weeks	Q4 2020 13 Weeks	Fiscal 2021 52 Weeks	Fiscal 2020 52 Weeks
Comparable sales ⁽⁴⁾	(not applicable) ⁽⁵⁾	\$ 245,636	(not applicable) ⁽⁵⁾	\$ 850,108
Non-comparable sales		29,794		130,481
Net revenue		\$ 275,430		\$ 980,589

⁽⁴⁾ Comparable sales growth is a retail industry metric used to explain our combined revenue growth in eCommerce and established boutiques. This information is provided to give context for comparable sales in such given period as compared to net revenue reported in our financial statements. 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.

⁽⁵⁾ Please see the "Comparable Sales Growth" section of this MD&A for more details.

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

(in thousands of Canadian dollars)

	Q4 2021 13 Weeks	Q4 2020 13 Weeks	Fiscal 2021 52 Weeks	Fiscal 2020 52 Weeks
Reconciliation of Net Cash Generated from Operating Activities to Free Cash Flow:				
Net cash generated from operating activities	\$ 7,391	\$ 47,898	\$ 133,947	\$ 222,076
Interest paid	890	971	4,651	4,429
Net cash used in investing activities	(11,368)	(12,167)	(50,848)	(47,790)
Repayments of principal on lease liabilities	(21,849)	(16,046)	(51,444)	(61,469)
Free cash flow	\$ (24,936)	\$ 20,656	\$ 36,306	\$ 117,246

The following tables provide selected consolidated financial information for the three most recently completed fiscal years.

Selected Consolidated Financial Information by Fiscal Year

(in thousands of Canadian dollars, unless otherwise noted)

	Fiscal 2021 52 Weeks	Fiscal 2020 52 Weeks	Fiscal 2019 53 Weeks
Net revenue	\$ 857,323	\$ 980,589	\$ 874,296
Net income	19,227	90,594	78,728
Net income per share			
Basic	0.18	0.84	0.70
Diluted	0.17	0.81	0.67

Selected Consolidated Financial Position Data by Fiscal Year

(in thousands of Canadian dollars)

	As at February 28, 2021	As at March 1, 2020	As at March 3, 2019
Total assets ⁽⁶⁾	\$ 1,140,737	\$ 1,036,715	\$ 629,374
Total non-current liabilities ⁽⁶⁾	531,279	550,807	164,454

⁽⁶⁾ The impact of IFRS 16 on the Fiscal 2021 and Fiscal 2020 Consolidated Financial Position figures includes an increase to total assets resulting from right-of-use assets recognized as well as an increase to non-current liabilities resulting from lease liabilities recognized.

No dividends have been paid on the Company's shares during the past three fiscal years.

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 and severity of COVID-19 in the local markets in which we operate, 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 and Products

We are an innovative design house of exclusive fashion brands that offers a strategic mix of exclusive brands that have been thoughtfully conceived, created, and developed. We believe that a key area of differentiation for us is that we design apparel and accessories for our collection of exclusive brands. Our 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 client demand and fashion preferences, which has been critical to our growth while also reducing risk.

Our exclusive brands are supported by in-house design teams focused on creating beautiful, quality products that align with the unique positioning, look and feel of each brand. 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 broad product assortment includes t-shirts, blouses, sweaters, jackets, coats, pants, shorts, skirts, dresses, denim, intimates and accessories for each season. We maintain a flexible mix of historically successful items and new seasonal styles. Our changing product mix is a blended reflection of client demands and fashion trends. This strategic mix helps us to drive client conversion by delivering fashion must-haves, while still generating a meaningful proportion of revenue from our fashion essentials. We complement our exclusive product mix with a strategically chosen selection of premium denim, accessories and footwear from leading contemporary third-party brands. Our expansive and diverse range of women's fashion apparel and accessories addresses a broad range of style preferences and lifestyle requirements for women of all ages, producing strong and enduring client loyalty.

We see meaningful potential to double our product offering by fiscal 2025 through:

- Depth (sizes, lengths, colours)
- Breadth (new style development)
- New categories (including swim and intimates)

Product Strategy

We control the design, merchandise planning, sourcing, production and retail functions of our exclusive brands and complement this with third-party brands as appropriate. This strategy allows us 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. Product design and quality are meticulously evaluated and controlled by us, from fabrics to trims, and styling to fit. In Fiscal 2021 we implemented our Product Lifecycle Management system to further support our product strategy and processes. This system consolidates and manages all of our product development data and tools into a single place to improve our focus on innovation and product quality, increase speed to market where appropriate, and ultimately optimize manufacturing costs.

Creative Development

We have talented teams of in-house designers who focus on creating products featuring high quality fabrics, considered detailing, sophisticated construction and superior fit. Our product design and development process builds on proven sellers while taking new fashion trends into account with the goal of creating fashion must-haves each season. Our in-house technical team ensures all products are executed in a manner that is consistent with our design and delivers superior fit and sophisticated construction in the production of our exclusive brands. We partner with best in class mills and suppliers to create and sample garments, which are fit-tested twice before production. We ensure that the quality of our raw materials and the finished product are all held to our high standards and the expectations of our clients.

Merchandise Planning

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.

Each year we develop product in two or four seasonal collections for our exclusive brands. We generate a meaningful proportion of revenue from our proven sellers while driving excitement through new seasonal product assortment. We buy in initial quantities that allow us to gauge client demand and follow up with larger orders when proven successful to maximize revenue. We analyze sales data in order to make inventory adjustments and to respond to the latest trends. Our inventory management processes and systems provide us with the ability to optimize inventory across our channels to ensure that each boutique and aritzia.com is merchandised with products that resonate with local preferences. By actively monitoring sell-through rates and managing the mix of product categories in our boutiques and aritzia.com, we are able to respond to emerging trends in a timely manner, minimize our dependence on any particular category, style or fabrication and preserve a balanced, coordinated presentation of merchandise within each boutique while being able to offer our client the entire assortment online. We believe that our disciplined merchandise planning strategy allows us to optimize inventory levels and maximize full-price sales.

Sourcing and Production

We contract and maintain direct relationships with a diversified base of independent suppliers and manufacturers for our exclusive brands who provide us with the flexibility to source high quality materials and products at competitive costs. 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 source the majority of our raw materials directly from mills, trim suppliers and manufacturers, located primarily in China, Japan, Italy, South Korea, and Taiwan 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, Cambodia, Sri Lanka, and Peru. We continue to monitor and diversify our supplier base, taking into consideration the geo-political and economic environment to mitigate risk. Capacity planning with our manufacturers is done at the beginning of the season to ensure flexibility. We engage third parties to inspect our manufacturers' factories to ensure quality control and engage independent expert service providers to conduct factory audits for compliance with local laws and regulations and global standards.

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. In addition to opening new Aritzia and exclusive brand boutiques (e.g. Wilfred, Babaton and TNA), we generate attractive returns on capital by enhancing elements of our existing boutiques (including footprint, layout and assortment) through carefully considered boutique expansions and repositions. We believe that we have a meaningful opportunity to expand our boutique network, particularly in the United States.

See also the "COVID-19 Pandemic" section of this MD&A.

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

	Q4 2021	Q4 2020	Fiscal 2021	Fiscal 2020
Number of boutiques, beginning of period	101	94	96	91
New boutiques	1	2	7	5
Repositioned to a flagship boutique	(1)	-	(1)	-
Boutique temporarily closed due to mall redevelopment	-	-	(1)	-
Number of boutiques, end of period	101	96	101	96
Boutiques expanded or repositioned	-	-	3	3

eCommerce and Omni-Channel Innovation

Launched in fiscal 2013, our eCommerce business quickly surpassed our growth expectations and has continued to experience growth year over year in online traffic. We continue to invest in our digital capabilities to support our eCommerce business:

- *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 benefiting the other through increased brand awareness and affinity. We launched digital selling tools in our boutiques 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* – Aritzia is focused on improving the digital experience across all devices (e.g., desktop, mobile, tablet) to work towards making shopping frictionless. We continue to implement 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.

Distribution Facilities

Our current distribution network consists of three distribution centres, two in Canada and one in the United States, that are well positioned to service our boutiques and eCommerce business. We operate our distribution centre located in New Westminster, British Columbia, while the distribution centres located in Mississauga, Ontario and Columbus, Ohio are operated by third-party logistics providers. Our inventory is centrally managed, and shared amongst our boutiques and eCommerce business.

Our distribution centre in New Westminster, British Columbia is a 223,000 square foot facility. We continue to upgrade our warehouse management system to enhance our supply chain system flexibility and scalability. During Fiscal 2020, we completed expansions at both of our third-party distribution centres in Mississauga, Ontario and Columbus, Ohio, from 75,000 square feet to 150,000 square feet and from 138,000 to 240,000 square feet, respectively. 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 current facilities are set up to flexibly manage multi-channel and omni-channel demands, as our business continues to grow.

Systems and Infrastructure

Our focus on building our digital infrastructure impacts everything we do. In our view, digital is about more than just our technology and eCommerce operations, it runs through the business all the way from design to the service we deliver in boutiques. We use best-in-class information systems to support the major functional aspects of our business. Ongoing upgrades and investments are expected to increase our efficiency and support our growth.

Clients

The Customer Program, a multi-year initiative comprised of four SAP projects, builds 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 aim is to tailor unique shopping experiences both in our boutiques and eCommerce while driving revenues 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, enabling us to personalize our communications by creating campaigns that cater to our clients' attributes and preferences, thereby enhancing our top-line growth. The first phase of the project was completed in Fiscal 2020.
- Concierge – Launched in Fiscal 2020, this integrated solution enhances our client experience throughout the lifecycle of their purchase. It is also a revenue generating opportunity as we personalize each client interaction through our client care centre. This platform was instrumental in supporting the significant increase in client care engagements during Fiscal 2021 as a direct result of the surge in eCommerce volumes.
- Digital Selling Tools – Also known as the Clientele App, the tool allows our style advisors to offer highly personalized service to our clients and drive traffic and sales to aritzia.com. In the form of a mobile app, the initial launch featured functionalities such as the ability to view client profiles and purchase history, product catalog and inventory data, the means to interact by call, text, or e-mail, and the ability to curate looks and share styles with clients.

We are also directing resources with a renewed focus on digital marketing and increasing the use of data analytics to improve online conversion and client loyalty through increased personalization.

eCommerce

aritzia.com is powered by Salesforce Commerce Cloud since its launch in Fiscal 2013. With our eCommerce business growing, we continue to invest in our digital capabilities. In Fiscal 2021, we implemented a number of initiatives on aritzia.com to enhance our clients' shopping experience. This included the launch of Fit Analytics to provide highly personalized size recommendations to our clients on aritzia.com. Based on the measurement data and preferences that our client provides, this AI tool leverages machine learning algorithms to generate precise fit guidance based on past purchases and its exceptional knowledge of our products.

Going forward, we expect to develop enhanced omni-channel capabilities to further elevate our clients' shopping experience, to provide a centralized view of inventory and unlock order fulfillment capabilities to improve cross channel activities such as store inventory visibility, buy online, ship from store and buy online, pickup in store.

See also the "COVID-19 Pandemic" section of this MD&A.

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, natural disasters or global pandemics. 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 historically 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 ("Revolving Credit Facility").

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

First fiscal quarter	17%
Second fiscal quarter	24%
Third fiscal quarter	29%
Fourth fiscal quarter	<u>30%</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 are strategically positioned in the global fashion landscape between fast fashion and luxury. We compete with a diverse group of specialty apparel retailers, department stores, fast fashion retailers, athletic retailers and other manufacturers and retailers of branded apparel. Market participants compete on the basis of, among other things, the location of boutiques, the breadth, style, quality, price and availability of merchandise, the level of client service and brand recognition. We believe that we successfully compete on the basis of several factors that include our strategic mix of exclusive brands, offering of a combination of high quality products at an attainable price point, our refined and proven merchandise planning strategy, our focus on providing an aspirational shopping experience and exceptional client service, our premier real estate portfolio and our market positioning, collectively resulting in a fashion brand loved by women all over the world.

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 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 of estimated delivery 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 is a retail industry metric used to explain our combined revenue growth in eCommerce and established boutiques. Comparable sales from established boutiques is calculated based on revenue from boutiques that have been opened for at least 56 weeks, 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. 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).

Comparable sales growth is typically a useful operating metric in assessing the performance of our business. However, as the temporary boutique closures from COVID-19 have resulted in boutiques being removed from our comparable store base, we believe comparable sales growth is not currently representative of our business and therefore we have not reported figures on this metric in this MD&A.

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 consists 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 is defined as consolidated net income before depreciation and amortization, finance expense and income tax expense.

Adjusted EBITDA is a useful measure of operating performance, as we believe 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 derivative and forward contracts, a deduction of interest expense and depreciation relating to our leases to reflect an estimate of rent expense and other items we consider non-recurring and not representative of our ongoing operating performance. 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) is a useful measure of performance, as we believe 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 derivative 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 is an important metric because it is an indicator of how much cash is available for re-investment in the Company, debt repayment, share repurchases 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.

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". 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.

RESULTS OF OPERATIONS

Analysis of Results for Fourth Quarter Fiscal 2021

Consolidated Statements of Operations

(in thousands of Canadian dollars, unless otherwise noted)

	Q4 2021		Q4 2020	
Net revenue	\$ 267,525	100.0%	\$ 275,430	100.0%
Cost of goods sold	164,600	61.5%	172,589	62.7%
Gross profit	102,925	38.5%	102,841	37.3%
Operating expenses				
Selling, general and administrative	72,357	27.0%	64,331	23.4%
Stock-based compensation expense	4,193	1.6%	2,411	0.9%
Income from operations	26,375	9.9%	36,099	13.1%
Finance expense	6,464	2.4%	6,914	2.5%
Other income	(2,129)	(0.8%)	(1,354)	(0.5%)
Income before income taxes	22,040	8.2%	30,539	11.1%
Income tax expense	5,970	2.2%	8,824	3.2%
Net income	\$ 16,070	6.0%	\$ 21,715	7.9%
Adjusted EBITDA	35,205	13.2%	42,375	15.4%
Adjusted Net Income	17,678	6.6%	23,428	8.5%
Adjusted Net Income per Diluted Share	\$ 0.16		\$ 0.21	

Net revenue decreased by 2.9% to \$267.5 million, compared to \$275.4 million in Q4 2020. The decrease in net revenue was primarily driven by a decline of \$57 million in retail revenue due to 39 government-mandated boutique reclosures and \$18 million related to occupancy restrictions and reduced operating hours in its open boutiques, offset by revenue from new boutiques. This was almost completely offset by a \$67 million increase in revenue associated with the continued accelerated momentum in the Company's eCommerce business, which grew by 81.1% from Q4 2020.

Gross profit increased by 0.1% to \$102.9 million, compared to \$102.8 million in Q4 2020. Gross profit margin was 38.5%, compared to 37.3% in Q4 2020. The increase in gross profit margin was primarily due to lower markdowns and \$1.5 million in rent abatements and \$1.5 million in government rent and payroll subsidies recognized during the quarter, partially offset by the deleverage from reduced retail revenue and higher warehousing and distribution centre costs driven by the growth in the Company's eCommerce business.

SG&A expenses increased by 12.5% to \$72.4 million, compared to \$64.3 million in Q4 2020. SG&A expenses were 27.0% of net revenue, compared to 23.4% of net revenue in Q4 2020. The increase in SG&A expenses was primarily due to the continued investment in talent and COVID-19 related health and safety measures.

Other income was \$2.1 million, compared to \$1.4 million in Q4 2020.

Other income of \$2.1 million in Q4 2021 primarily relates to:

- unrealized gains on equity derivatives of \$2.6 million,
- interest income of \$0.1 million, partially offset by
- unrealized and realized operational foreign exchange losses of \$1.1 million.

Other income of \$1.4 million in Q4 2020 primarily related 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.

Adjusted EBITDA was \$35.2 million, or 13.2% of net revenue, compared to \$42.4 million, or 15.4% of net revenue in Q4 2020. The decrease in Adjusted EBITDA was primarily due to our continued investment in talent and COVID-19 related health and safety measures.

Stock-based compensation expense was \$4.2 million, compared to \$2.4 million in Q4 2020.

Included in Q4 2021 is \$2.5 million in expenses related to the accounting for our deferred and restricted share units, \$1.6 million in expenses primarily related to the accounting for options under our new option plan and \$0.1 million in expenses related to the accounting for options under our legacy option plan.

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

Finance expense decreased by \$0.4 million to \$6.5 million, compared to \$6.9 million in Q4 2020. The decrease in finance expense was primarily due to a lower average interest rate compared to Q4 2020.

Depreciation and amortization increased by \$3.0 million to \$27.1 million, compared to \$24.1 million in Q4 2020.

The following table provides the depreciation and amortization expense for the periods indicated.

(in thousands of Canadian dollars)

	Q4 2021	Q4 2020
Depreciation and amortization	\$ 10,723	\$ 9,017
Depreciation on right-of-use-assets	16,410	15,117
Total depreciation and amortization	<u>\$ 27,133</u>	<u>\$ 24,134</u>

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 2021 and Q4 2020 were 26.7% and 26.8%, respectively.

Income tax expense was \$6.0 million, compared to \$8.8 million in Q4 2020 and the effective tax rates for Q4 2021 and Q4 2020 were 27.1% and 28.9%, respectively.

Net income was \$16.1 million, compared to \$21.7 million in Q4 2020. The decrease in net income was primarily due to our continued investment in talent and COVID-19 related health and safety measures.

Adjusted Net Income was \$17.7 million, compared to \$23.4 million in Q4 2020, primarily due to the factors discussed above.

Adjusted Net Income per Diluted Share was \$0.16, compared to \$0.21 in Q4 2020, primarily due to the factors discussed above.

Cash and cash equivalents at the end of Q4 2021 totaled \$149.1 million, compared to \$117.8 million at the end of Q4 2020.

Inventory at end of Q4 2021 was \$171.8 million, compared to \$94.0 million at the end of Q4 2020. This intentional increase was to fuel the acceleration of sales in the United States and continued growth in its eCommerce business. The Company is very pleased with this decision and it is seeing the results in its first quarter sales. The Company is confident in its inventory position and has made the decision to cancel its Spring sale and pushed back the launch of its Summer sales event in the United States by four weeks to align with the Canadian event. The Company expects to finish the season with a clean inventory position, as usual.

Capital cash expenditures (net of proceeds from leasehold inducements) decreased by \$0.3 million to \$9.4 million in Q4 2021, compared to \$9.7 million in Q4 2020.

The following table provides the capital cash expenditures (net of proceeds from leasehold inducements) for the periods indicated.

(in thousands of Canadian dollars)

	Q4 2021	Q4 2020
Cash used in investing activities	\$ 11,368	\$ 12,167
Proceeds from deferred tenant inducement allowances	(1,953)	(2,435)
Capital cash expenditures (net of proceeds from leasehold inducements)	<u>\$ 9,415</u>	<u>\$ 9,732</u>

Analysis of Results for Fiscal 2021

Consolidated Statements of Operations

(in thousands of Canadian dollars, unless otherwise noted)

	Fiscal 2021		Fiscal 2020	
Net revenue	\$ 857,323	100.0%	\$ 980,589	100.0%
Cost of goods sold	544,818	63.5%	577,165	58.9%
Gross profit	312,505	36.5%	403,424	41.1%
Operating expenses				
Selling, general and administrative	250,726	29.2%	243,362	24.8%
Stock-based compensation expense	10,691	1.2%	7,790	0.8%
Income from operations	51,088	6.0%	152,272	15.5%
Finance expense	28,420	3.3%	28,319	2.9%
Other income	(3,534)	(0.4%)	(2,185)	(0.2%)
Income before income taxes	26,202	3.1%	126,138	12.9%
Income tax expense	6,975	0.8%	35,544	3.6%
Net income	<u>\$ 19,227</u>	<u>2.2%</u>	<u>\$ 90,594</u>	<u>9.2%</u>
Adjusted EBITDA	76,812	9.0%	172,572	17.6%
Adjusted Net Income	26,028	3.0%	97,388	9.9%
Adjusted Net Income per Diluted Share	<u>\$ 0.23</u>		<u>\$ 0.87</u>	

Net revenue decreased by 12.6% to \$857.3 million, compared to \$980.6 million in Fiscal 2020. The decrease in net revenue was primarily due to the impact of COVID-19 and the associated temporary boutique closures, as well as ongoing severe occupancy restrictions and reduced boutique operating hours, partially offset by meaningful eCommerce revenue growth throughout the year.

- **eCommerce revenue** increased by 88.3% to \$425.9 million, or 49.7% of net revenue, compared to \$226.2 million or 23.1% of net revenue in Fiscal 2020, driven by higher traffic and conversion
- **Retail revenue** decreased by 42.8% to \$431.4 million, compared to \$754.4 million in Fiscal 2020
- **Store count** at the end of Fiscal 2021 totaled 101 compared to 96 boutiques last year. During the year, the Company opened 7 new boutiques (5 in the United States and 2 in Canada) and repositioned three boutiques (1 in the United States and 2 in Canada)

Gross profit decreased by 22.5% to \$312.5 million, compared to \$403.4 million in Fiscal 2020. Gross profit margin was 36.5%, compared to 41.1% in Fiscal 2020. The decrease in gross profit margin was primarily due to higher warehousing and distribution centre costs driven by the growth in the Company's eCommerce business and deleverage from reduced retail revenue, partially offset by \$17.2 million in rent abatements and \$7.1 million in government subsidies primarily related to product, warehousing and distribution labour recognized during the year.

SG&A expenses increased by 3.0% to \$250.7 million, compared to \$243.4 million in Fiscal 2020. SG&A expenses in Fiscal 2021 were 29.2% of net revenue, compared to 24.8% of net revenue in Fiscal 2020. Deleverage in SG&A expenses this year was primarily due to the continued investment in talent, loss of retail revenue and the implementation of additional health and safety measures, partially offset by \$26.6 million in government payroll subsidies related to retail and support office labour recognized during the year.

Other income was \$3.5 million, compared to \$2.2 million in Fiscal 2020.

Other income of \$3.5 million in Fiscal 2021 primarily relates to:

- unrealized gains on equity derivative contracts of \$3.7 million,
- interest income of \$0.9 million, partially offset by
- unrealized and realized operational foreign exchange losses of \$1.8 million.

Other income of \$2.2 million in Fiscal 2020 primarily related 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 \$0.4 million.

Adjusted EBITDA was \$76.8 million, or 9.0% of net revenue, compared to \$172.6 million, or 17.6% of net revenue in Fiscal 2020, primarily due to the factors discussed above. The decrease in Adjusted EBITDA was primarily due to the loss of net revenue from the impacts of COVID-19.

Stock-based compensation expense was \$10.7 million, compared to \$7.8 million in Fiscal 2020.

Included in Fiscal 2021 is \$5.5 million in expenses primarily related to the accounting for options under our new option plan, \$4.7 million in expenses related to the accounting for our deferred and restricted share units and \$0.5 million in expenses related to the accounting for options under our legacy option plan.

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

Finance expense increased by \$0.1 million to \$28.4 million, compared to \$28.3 million in Fiscal 2020.

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 2021 and Fiscal 2020 were 26.7% and 26.8%, respectively.

Income tax expense was \$7.0 million, compared to \$35.5 million in Fiscal 2020 and the effective tax rates for Fiscal 2021 and Fiscal 2020 were 26.6% and 28.2%, respectively. The decrease in the effective tax rate compared to Fiscal 2020 is due to a decrease in the amount of stock-based compensation expense.

Depreciation and amortization increased by \$11.6 million to \$105.1 million, compared to \$93.5 million in Fiscal 2020.

The following table provides the depreciation and amortization expense for the periods indicated.

(in thousands of Canadian dollars)

	Fiscal 2021		Fiscal 2020
Depreciation and amortization	\$ 38,871	\$	34,422
Depreciation on right-of-use assets	66,278		59,080
Total depreciation and amortization	<u>\$ 105,149</u>	<u>\$</u>	<u>93,502</u>

Net income decreased by 78.8% to \$19.2 million, compared to \$90.6 million in Fiscal 2020. The decrease in net income was primarily due to the loss of net revenue from the impacts of COVID-19.

Adjusted Net Income was \$26.0 million, compared to \$97.4 million in Fiscal 2020, primarily due to the factors discussed above.

Adjusted Net Income per Diluted Share was \$0.23, compared to \$0.87 in Fiscal 2020, primarily due to the factors discussed above.

Capital cash expenditures (net of proceeds from leasehold inducements) increased by \$6.3 million to \$42.5 million, compared to \$36.3 million in Fiscal 2020.

The following table provides the capital cash expenditures (net of proceeds from leasehold inducements) for the periods indicated.

(in thousands of Canadian dollars)

	Fiscal 2021	Fiscal 2020
Cash used in investing activities	\$ 50,848	\$ 47,790
Proceeds from deferred tenant inducement allowances	(8,319)	(11,537)
Capital cash expenditures (net of proceeds from leasehold inducements)	<u>\$ 42,529</u>	<u>\$ 36,253</u>

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, debt service requirements and return to shareholders (share buybacks). Our ability to fund future operating expenses, capital expenditures, debt service requirements and return to shareholders (share buybacks) 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 February 28, 2021, 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 repayments 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. During Fiscal 2021, \$100.0 million of our Revolving Credit Facility was drawn and subsequently repaid. No amounts were drawn on the Revolving Credit Facility as at February 28, 2021. 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.

<i>(in thousands of Canadian dollars)</i>	Q4 2021	Q4 2020	Fiscal 2021	Fiscal 2020
Net cash generated from operating activities	\$ 7,391	\$ 47,898	\$ 133,947	\$ 222,076
Net cash used in financing activities	(19,922)	(13,614)	(48,905)	(157,402)
Net cash used in investing activities	(11,368)	(12,167)	(50,848)	(47,790)
Effect of exchange rate changes on cash and cash equivalents	(990)	(33)	(2,797)	(31)
(Decrease) increase in cash and cash equivalents	\$ (24,889)	\$ 22,084	\$ 31,397	\$ 16,853

Analysis of Cash Flows for the Fourth Quarter and Fiscal 2021

Cash Flows Generated from Operating Activities

For Q4 2021, cash flows generated from operating activities totaled \$7.4 million, compared to \$47.9 million in Q4 2020. This change was primarily attributable to a decrease in income from operations and higher use of working capital due to the timing of payments, partially offset by a reduction in income taxes paid.

For Fiscal 2021, cash flows generated from operating activities totaled \$133.9 million, compared to \$222.1 million in Fiscal 2020. This change was primarily attributable to a decrease in income from operations and higher use of working capital due to the timing of payments and collection of receivables, partially offset by a reduction in income taxes paid.

Cash Flows Used in Financing Activities

For Q4 2021, cash flows used in financing activities totaled \$19.9 million, compared to \$13.6 million in Q4 2020. Financing activities in Q4 2021 and Q4 2020 primarily relate to the repayment of principal on lease liabilities, partially offset by proceeds received from options exercised.

For Fiscal 2021, cash flows used in financing activities totaled \$48.9 million, compared to \$157.4 million used in Fiscal 2020. Financing activities in Fiscal 2021 primarily relate to the repayment of principal on lease liabilities and include the drawdown and subsequent repayment of \$100.0 million of the Revolving Credit Facility, partially offset by proceeds received from options exercised. Financing activities in Fiscal 2020 primarily relate to our repurchase of subordinate voting shares for cancellation for \$107.0 million and the repayment of principal on lease liabilities, partially offset by proceeds received from options exercised. Financing activities in Fiscal 2020 also include the drawdown and subsequent repayment of \$25.0 million of the Revolving Credit Facility.

Cash Flows Used in Investing Activities

For Q4 2021, cash flows used in investing activities totaled \$11.4 million, compared to \$12.2 million in Q4 2020. Investing activities in Q4 2021 relate to new boutiques and boutique expansions and repositions.

For Fiscal 2021, cash flows used in investing activities totaled \$50.8 million, compared to \$47.8 million in Fiscal 2020. Investing activities in Fiscal 2021 relate to new boutiques and boutique expansions and repositions, as well as investments in our Product Lifecycle Management system.

CONTRACTUAL OBLIGATIONS

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at February 28, 2021.

(in thousands of Canadian dollars)

	Less than 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	\$ 131,893	\$ -	\$ -	\$ 131,893
Assumed interest on Term Loan ⁽⁷⁾	1,649	379	-	2,028
Lease liabilities	95,367	335,436	148,494	579,297
Minimum lease commitments with future commencement dates	2,474	24,239	26,760	53,473
Term Loan ⁽⁸⁾	-	75,000	-	75,000
Total contractual obligations and commitments	\$ 231,383	\$ 435,054	\$ 175,254	\$ 841,691

Notes:

⁽⁷⁾ Based on interest rate in effect as at February 28, 2021, and assuming no unscheduled principal payments are made prior to maturity.

⁽⁸⁾ The Credit Facilities require mandatory loan prepayments by the Company 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 February 28, 2021, we had purchase obligations of \$69.8 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. As at February 28, 2021, letters of credit totaling \$41.3 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 February 28, 2021.

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 February 28, 2021, we did not have any outstanding foreign currency forward contracts.

The Company has equity derivative contracts to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts are not designated as hedging instruments for accounting purposes. Changes in the fair value of equity derivative contracts are recorded in net income. As at February 28, 2021, the equity derivative contracts had a positive fair value of \$4.4 million which is recorded in prepaid expenses and other current assets.

RELATED PARTY TRANSACTIONS

During the year ended February 28, 2021, we made payments of \$4.2 million (March 1, 2020 - \$4.0 million) for lease of premises and management services and \$0.7 million (March 1, 2020 - \$0.6 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 February 28, 2021, the outstanding balance of lease liabilities owed to these companies was \$11.6 million (March 1, 2020 - \$12.6 million). As at February 28, 2021, \$0.2 million was included in accounts payable and accrued liabilities (March 1, 2020 - \$0.2 million). These transactions were measured at the amount of consideration established at market terms.

Transactions with Key Management

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

(in thousands of Canadian dollars)

	Q4 2021	Q4 2020	Fiscal 2021	Fiscal 2020
Salaries, directors' fees and short-term benefits	\$ 555	\$ 802	\$ 3,860	\$ 3,981
Stock-based compensation expense	1,827	919	4,135	3,111
	\$ 2,382	\$ 1,721	\$ 7,995	\$ 7,092

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:

Gift Card Breakage

Recognition of gift card breakage requires the use of judgment involving the estimation of 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 estimating the return rate of merchandise based on historical patterns of returns.

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 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.

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.

In May 2020, the IASB issued guidance in relation to accounting for rent concessions resulting from COVID-19. We have elected to apply the issued guidance for Fiscal 2021.

Stock-Based Compensation Expense

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

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

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application was permitted. The Company adopted the amendment effective for the annual period ended February 28, 2021 and has elected to apply the provided practical expedient. The Company accounts for any change in lease payments resulting from a COVID-19-related rent concession the same way it would account for the change if the change were not a lease modification.

Standards Issued But Not Yet Adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, IASB issued Classification of Liabilities as Current or Non-Current, which amends IAS 1 – Presentation of Financial Statements. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company does not plan to early adopt the amendments to IAS 1. The implementation of this amendment is not expected to have a significant impact on the Company.

RISK FACTORS

For a detailed description of risk factors associated with the Company, including COVID-19 risks, 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, and 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 year, 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, AIF, 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 February 28, 2021. 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 February 28, 2021.

Although the Company's disclosure controls and procedures were operating effectively as of February 28, 2021, 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 February 28, 2021. 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 control over financial reporting, as defined by NI 52-109, were effective as at February 28, 2021.

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 financial statement preparation and presentation.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter and year ended February 28, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CURRENT SHARE INFORMATION

As of May 10, 2021, an aggregate of 85,522,257 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 10, 2021, an aggregate of 8,156,809 options to acquire subordinate voting shares are outstanding.

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".

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, Adjusted Net Income per Diluted Share, free cash flow 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.

Consolidated Quarterly Results								
<i>(in thousands of Canadian dollars, unless otherwise noted)</i>	Fiscal 2021				Fiscal 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Summary:								
Net revenue	\$ 267,525	\$ 278,254	\$ 200,155	\$ 111,389	\$ 275,430	\$ 267,282	\$ 241,178	\$ 196,699
Cost of goods sold	164,600	152,171	129,719	98,328	172,589	147,687	145,751	111,138
Gross profit	102,925	126,083	70,436	13,061	102,841	119,595	95,427	85,561
SG&A	72,357	74,707	60,151	43,511	64,331	64,035	60,567	54,429
Income (loss) from operations	26,375	48,004	8,138	(31,429)	36,099	54,497	32,918	28,758
Net income (loss)	16,070	30,502	(874)	(26,471)	21,715	34,803	17,920	16,156
Net income (loss) per share	\$ 0.15	\$ 0.28	\$ (0.01)	\$ (0.24)	\$ 0.20	\$ 0.32	\$ 0.17	\$ 0.15
Net income (loss) per diluted share	\$ 0.14	\$ 0.27	\$ (0.01)	\$ (0.24)	\$ 0.19	\$ 0.31	\$ 0.16	\$ 0.14
Adjusted EBITDA ⁽⁹⁾	\$ 35,205	\$ 54,565	\$ 12,274	\$ (25,232)	\$ 42,375	\$ 58,446	\$ 36,372	\$ 35,379
Adjusted Net Income (Loss) ⁽¹⁰⁾	\$ 17,678	\$ 32,188	\$ 1,034	\$ (24,872)	\$ 23,428	\$ 35,719	\$ 19,757	\$ 18,484
Adjusted Net Income (Loss) per Diluted Share ⁽⁹⁾	\$ 0.16	\$ 0.29	\$ 0.01	\$ (0.23)	\$ 0.21	\$ 0.32	\$ 0.18	\$ 0.17
Weighted average number of diluted shares (in thousands) ⁽¹⁰⁾	114,052	112,903	112,550	109,353	113,120	111,898	111,537	111,851
Cash and cash equivalents	\$ 149,147	\$ 174,036	\$ 207,254	\$ 224,313	\$ 117,750	\$ 95,666	\$ 29,986	\$ 35,757
Capital cash expenditures (net of proceeds from leasehold inducements)	\$ 9,415	\$ 10,383	\$ 10,586	\$ 12,145	\$ 9,732	\$ 11,194	\$ 6,426	\$ 8,901
Free cash flow	\$ (24,936)	\$ 68,387	\$ (15,200)	\$ 8,055	\$ 20,656	\$ 80,810	\$ (1,137)	\$ 16,917
Percentage of Net Revenue:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	61.5%	54.7%	64.8%	88.3%	62.7%	55.3%	60.4%	56.5%
Gross profit	38.5%	45.3%	35.2%	11.7%	37.3%	44.7%	39.6%	43.5%
SG&A	27.0%	26.8%	30.1%	39.1%	23.4%	24.0%	25.1%	27.7%
Income (loss) from operations	9.9%	17.3%	4.1%	(28.2%)	13.1%	20.4%	13.6%	14.6%
Net income (loss)	6.0%	11.0%	(0.4%)	(23.8%)	7.9%	13.0%	7.4%	8.2%
Adjusted EBITDA ⁽⁹⁾	13.2%	19.6%	6.1%	(22.7%)	15.4%	21.9%	15.1%	18.0%
Adjusted Net Income (Loss) ⁽⁹⁾	6.6%	11.6%	0.5%	(22.3%)	8.5%	13.4%	8.2%	9.4%
Other Performance Metrics:								
Net revenue growth	(2.9%)	4.1%	(17.0%)	(43.4%)	6.3%	10.0%	17.4%	17.8%
Comparable sales growth ⁽⁹⁾	n/a	n/a	n/a	n/a	8.9%	5.1%	8.4%	7.9%
Boutiques:								
Number of boutiques, beginning of period	101	97	97	96	94	93	92	91
New boutiques added	1	5	-	1	2	1	1	1
Repositioned to a flagship boutique	(1)	-	-	-	-	-	-	-
Boutique temporarily closed due to mall redevelopment	-	(1)	-	-	-	-	-	-
Number of boutiques, end of period	101	101	97	97	96	94	93	92
Boutiques expanded or repositioned	-	2	1	-	-	2	-	1

Notes:

⁽⁹⁾ See "How We Assess the Performance of Our Business" for definitions of Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and comparable sales growth, which are non-IFRS measures including Retail Industry Metrics. See also "Non-IFRS Measures".

⁽¹⁰⁾ Weighted average number of diluted shares is provided for purposes of calculating Adjusted Net Income (Loss) per Diluted Share.

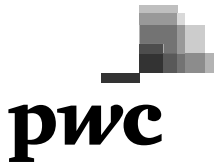
Financial Statements



ARITZIA

Aritzia Inc.

Consolidated Financial Statements
February 28, 2021 and March 1, 2020
(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 February 28, 2021 and March 1, 2020, 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 February 28, 2021 and March 1, 2020;
- 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 significant accounting policies and other explanatory information.

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.

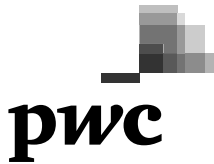
Independence

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.

Key audit matters

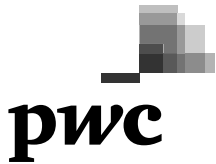
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended February 28, 2021. These matters were

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806



addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Inventory</p> <p><i>Refer to note 2 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 5 – Inventory to the consolidated financial statements.</i></p> <p>As at February 28, 2021, the Company held inventory of \$171.8 million including finished goods in transit of \$48.9 million. Inventory is carried at the lower of cost and net realizable value. Cost is determined using weighted average costs. Cost of inventory includes the cost of merchandise and all costs incurred to deliver inventory to the Company’s distribution centres, including freight and duty.</p> <p>Management periodically reviews inventory and makes provisions to value obsolete or damaged goods.</p> <p>We considered this a key audit matter due to the number of inventory locations at which inventory was held, the audit effort involved in testing the inventory in transit balance, and the judgment applied by management in estimating the inventory provisions.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • Tested the operating effectiveness of relevant controls relating to the accounting for inventory, including the mathematical accuracy of the weighted average cost method. • Tested a sample of inventory items to purchase invoices. • Observed the inventory count process for all distribution centres and for a sample of stores near year-end and performed independent test counts. • Tested on a sample basis, the finished goods in transit at year-end by agreeing to third party shipment documents, inventory receipts to distribution centres, and purchase invoices. • Tested on a sample basis, inventory received post year-end to shipping documents to assess whether inventory was recorded appropriately at year end. • Tested how management estimated the inventory provisions in determining net realizable value, which included the following: <ul style="list-style-type: none"> – Tested a sample of inventory items to the most recent retail prices of the inventory items. – Tested the underlying data used in the inventory provisions for obsolete or damaged goods, and evaluated the reasonableness of the percentage of write-down applied to the obsolete or damaged goods inventory by considering the historical write-downs and performing a sensitivity analysis.



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.

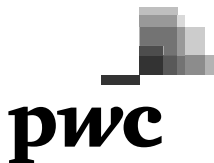
If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, 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.

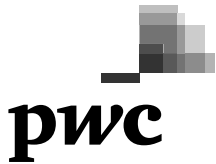


Auditor's responsibilities for the audit of the consolidated financial statements

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 11, 2021

Aritzia Inc.
Consolidated Statements of Financial Position
As at February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars)

	Note	February 28, 2021	March 1, 2020
Assets			
Current assets			
Cash and cash equivalents		\$ 149,147	\$ 117,750
Accounts receivable		6,202	6,555
Income taxes recoverable	18	4,719	2,157
Inventory	5	171,821	94,034
Prepaid expenses and other current assets	1,12	23,452	10,880
Total current assets		355,341	231,376
Property and equipment	1,6	189,568	184,637
Intangible assets	1,7	62,049	63,867
Goodwill	1,7	151,682	151,682
Right-of-use assets	1,8	363,417	380,360
Other assets		2,886	4,315
Deferred tax assets	18	15,794	20,478
Total assets		\$ 1,140,737	\$ 1,036,715
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 131,893	\$ 57,715
Income taxes payable	18	8,287	3,198
Current portion of lease liabilities	8	71,452	63,440
Deferred revenue		37,563	29,490
Total current liabilities		249,195	153,843
Lease liabilities	8	423,380	447,087
Other non-current liabilities	10	15,059	9,451
Deferred tax liabilities	18	17,985	19,529
Long-term debt	11,12	74,855	74,740
Total liabilities		\$ 780,474	\$ 704,650
Shareholders' equity			
Share capital	13	\$ 228,665	\$ 219,050
Contributed surplus		56,606	57,221
Retained earnings		75,216	56,476
Accumulated other comprehensive loss		(224)	(682)
Total shareholders' equity		360,263	332,065
Total liabilities and shareholders' equity		\$ 1,140,737	\$ 1,036,715

Commitments and contingencies (notes 8 and 20)

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 February 28, 2021 and March 1, 2020

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

	Note	February 28, 2021	March 1, 2020
Net revenue	1, 16, 19	\$ 857,323	\$ 980,589
Cost of goods sold	1, 17	544,818	577,165
Gross profit		312,505	403,424
Operating expenses			
Selling, general and administrative	1	250,726	243,362
Stock-based compensation expense	14, 17	10,691	7,790
Income from operations		51,088	152,272
Finance expense	8, 17	28,420	28,319
Other income	17	(3,534)	(2,185)
Income before income taxes		26,202	126,138
Income tax expense	18	6,975	35,544
Net income		\$ 19,227	\$ 90,594
Net income per share			
Basic	15	\$ 0.18	\$ 0.84
Diluted	15	0.17	0.81
Weighted average number of shares outstanding (thousands)			
Basic	15	109,487	108,411
Diluted	15	112,844	112,128

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

Aritzia Inc.
Consolidated Statements of Comprehensive Income
For the years ended February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars)

	February 28, 2021	March 1, 2020
Net income	\$ 19,227	\$ 90,594
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	458	(329)
Comprehensive income	<u>\$ 19,685</u>	<u>\$ 90,265</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 February 28, 2021 and March 1, 2020

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

	Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amounts	Shares	Amounts				
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, Leases	-	-	-	-	-	(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 option 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
Net Income	-	-	-	-	-	19,227	-	19,227
Options exercised (note 14)	-	-	643,922	9,707	(6,645)	-	-	3,062
Stock-based compensation expense on option plans (note 14)	-	-	-	-	6,030	-	-	6,030
Shares repurchased for cancellation (note 13)	-	-	(38,664)	(92)	-	(487)	-	(579)
Foreign currency translation adjustment	-	-	-	-	-	-	458	458
Balance, February 28, 2021	24,537,349	\$ 17,737	85,416,470	\$ 210,928	\$ 56,606	\$ 75,216	\$ (224)	\$ 360,263

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

Aritzia Inc.

Consolidated Statements of Cash Flows

For the years ended February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars)

	Note	February 28, 2021	March 1, 2020
Operating activities			
Net income for the period		\$ 19,227	\$ 90,594
Adjustments for:			
Depreciation and amortization	6, 7, 17	38,871	34,422
Depreciation on right-of-use-assets	8, 17	66,278	59,080
Finance expense	17	28,420	28,319
Stock-based compensation expense	14, 17	10,691	7,790
Amortization of deferred lease inducements		(934)	(689)
Unrealized gain on equity derivative contracts	12	(3,701)	(650)
Income tax expense	18	6,975	35,544
Rent concessions relating to lease liabilities	1, 8	(13,903)	-
Proceeds from lease incentives		8,319	11,537
Cash generated before non-cash working capital balances and interest and income taxes		160,243	265,947
Net change in non-cash working capital balances	22	3,913	18,625
Cash generated before interest and income taxes		164,156	284,572
Interest paid		(4,651)	(4,429)
Interest paid on lease liabilities		(22,887)	(23,763)
Income taxes paid		(2,671)	(34,304)
Net cash generated from operating activities		133,947	222,076
Financing activities			
Proceeds from revolving credit facility	11	100,000	25,000
Repayment of revolving credit facility	11	(100,000)	(25,000)
Repayment of principal on lease liabilities	8	(51,444)	(61,469)
Proceeds from options exercised	14	3,062	11,627
Shares repurchased for cancellation	13	(523)	(107,560)
Net cash used in financing activities		(48,905)	(157,402)
Investing activities			
Purchase of property and equipment	6	(50,255)	(45,591)
Purchase of intangible assets	7	(593)	(2,199)
Net cash used in investing activities		(50,848)	(47,790)
Effect of exchange rate changes on cash and cash equivalents		(2,797)	(31)
Increase in cash and cash equivalents		31,397	16,853
Cash and cash equivalents - Beginning of year		117,750	100,897
Cash and cash equivalents - End of year		\$ 149,147	\$ 117,750

Supplemental cash flow information (note 22)

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 in its boutiques and online. Each of the Company’s exclusive brands has its own vision and distinct aesthetic point of view. As at February 28, 2021, the Company had 101 retail boutiques (March 1, 2020 – 96 retail 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 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”.

Basis of presentation

These consolidated financial statements 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 2. These consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

Aritzia Inc.
Notes to Consolidated Financial Statements
February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

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. All references to 2021 and 2020 represent the fiscal years ended February 28, 2021 and March 1, 2020, 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 11, 2021 by the Company's Board of Directors.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a worldwide pandemic. On March 16, 2020, 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. The Company's distribution centers remained opened under stringent health and safety protocols as the Company continued with its eCommerce business. On May 7, 2020, the Company began a phased reopening of its retail boutiques. As part of the reopening plan, the Company implemented extensive health and safety measures designed to protect its people and clients and communities. As of September 9, 2020, all of the Company's boutiques had reopened. Beginning November 23, 2020 and through the fourth quarter, as a result of the resurgence of COVID-19 and in line with government regulations, the Company temporarily reclosed 39 of its boutiques primarily located in Ontario and Quebec. As at February 28, 2021, 18 of these boutiques remained temporarily closed.

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The Company determined that it qualified for the Canada Emergency Wage Subsidy and Emergency Rent Subsidy programs under the COVID-19 Economic Response Plan in Canada and for the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in the United States. During the year ended February 28, 2021, the Company recognized payroll subsidies of \$32.6 million and \$1.1 million of rent subsidies under the above mentioned programs. The payroll subsidies were recorded as a reduction in the associated eligible salaries and wage costs, recognized in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations. The rent subsidies were recorded as a reduction in store occupancy costs in cost of goods sold in the consolidated statements of operations. As at February 28, 2021, the Company had \$5.0 million of payroll subsidies and \$1.1 million of rent subsidies receivable recorded in prepaid expenses and other current assets.

In May 2020, the IASB issued guidance in relation to accounting for rent concessions resulting from COVID-19. The Company has elected to apply the issued guidance for the annual period ended February 28, 2021 (note 3). For the year ended February 28, 2021, the Company recognized \$17.5 million of rent and occupancy

Aritzia Inc.
Notes to Consolidated Financial Statements
February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

concessions in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations.

Net revenue is reported net of an estimated allowance for returns. As a result of its temporary boutique closures, the Company extended its return policies for purchases made in these boutiques.

The CARES Act in the United States further allows 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 resulted in the Company recognizing an income taxes receivable of \$5.6 million, to be applied to income taxes payable in prior periods, and a decrease to total income tax expense of \$2.0 million for the year ended February 28, 2021.

The Company's operations were significantly impacted by the COVID-19 pandemic during Fiscal 2021. The extent of the impact of COVID-19 on future periods will depend on future developments, including the duration or resurgence of the pandemic and related government responses, which are uncertain and cannot be predicted. Further or prolonged closures of the Company's boutiques could result in the reassessment of impairment of property and equipment, definite and indefinite life intangible assets, right-of-use assets and goodwill, and a provision to the net realizable value of the Company's inventories.

2 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.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

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.

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 February 28, 2021, the Company had no investments held in money market instruments classified as cash equivalents (March 1, 2020 - \$92.9 million).

Prepaid expenses and other current assets

Prepaid expenses and other current assets comprise of prepaid expenses, deposits and packaging supplies. As at February 28, 2021, the Company had \$5.0 million of government payroll subsidies and \$1.1 million of government rent subsidies receivable recorded in prepaid expenses and other current assets.

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.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

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.

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
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.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

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.

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 and in-substance 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.

Lease payments for assets that are exempt through the short-term exemption and 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. Lease incentives received for variable payment leases are deferred and amortized as a reduction in recognized variable rent expenses over the related lease terms.

Aritzia Inc.
Notes to Consolidated Financial Statements
February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

Provisions

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

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

Financial instruments

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

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

Changes of the fair value of financial instruments classified as FVTPL are recorded in profit or loss in the period in which they arise. Gains and losses on financial instruments classified at amortized cost are recognized in profit or loss when the financial instruments are derecognized, modified or impaired.

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

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

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

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

Offsetting financial instruments

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

Share capital

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

Aritzia Inc.

Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars, unless otherwise noted)

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 of estimated delivery to the customer, and measured at the fair value of the consideration received, net of discounts and an estimated allowance for returns. Shipping fees charged to customers are recorded as revenue.

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.

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.

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.

Government grants

The Company recognizes government grants when there is reasonable assurance that the Company has met the requirements of the grant program, and that the grant will be received. The Company recognizes government grants as a reduction to the related expense that the grant is intended to offset.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

Income tax expense

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

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

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

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

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

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Stock-based compensation expense

Stock Option Plans

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

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

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

Deferred Share Units and Restricted Share Units

The Company has a Director Deferred Share Unit ("DSU") Program for non employee board members 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 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.

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3 Significant new accounting standards

Standards early adopted

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application was permitted. The Company adopted the amendment effective for the annual period ended February 28, 2021 and has elected to apply the provided practical expedient. The Company accounts for any change in lease payments resulting from a COVID-19-related rent concessions the same way it would account for the change if the change were not a lease modification.

Standards issued but not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, IASB issued Classification of Liabilities as Current or Non-Current, which amends IAS 1 – Presentation of Financial Statements. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company does not plan to early adopt the amendments to IAS 1. The implementation of this amendment is not expected to have a significant impact on the Company.

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:

- Gift card breakage, which requires the use of judgment involving the estimation of the Company’s average gift card breakage rate, based on historical redemption rates. The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.

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- Return allowances, which require judgement involving the estimation of the return rate of merchandise based on historical patterns of returns.
- 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 discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates (note 7).
- 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).
- 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). The Company considers all facts and circumstances that create an economic incentive to exercise a renewal or termination option.
- 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).
- Income taxes, which requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (note 18).

5 Inventory

	February 28, 2021	March 1, 2020
Finished goods	\$ 122,933	\$ 84,601
Finished goods in transit	48,888	9,433
	<hr/> \$ 171,821	<hr/> \$ 94,034

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 \$4.8 million for the year ended February 28, 2021 (March 1, 2020 - \$2.1 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, 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
Additions	24,034	7,851	2,510	225	10,888	45,508
Transfers from construction-in-progress	11,758	1,333	602	905	(14,598)	-
Transfer to intangibles	-	-	-	(889)	-	(889)
Dispositions	(10,185)	(4,143)	(2,595)	(382)	-	(17,305)
Foreign exchange	(5,630)	(1,094)	(188)	(17)	(380)	(7,309)
Balance, February 28, 2021	\$ 253,076	\$ 60,510	\$ 18,368	\$ 6,796	\$ 11,565	\$ 350,315
Accumulated depreciation						
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
Depreciation	23,919	7,584	3,225	811	-	35,539
Dispositions	(10,185)	(4,143)	(2,595)	(382)	-	(17,305)
Foreign exchange	(2,420)	(583)	(139)	(18)	-	(3,160)
Balance, February 28, 2021	\$ 111,459	\$ 30,669	\$ 12,926	\$ 5,693	\$ -	\$ 160,747
Net carrying value						
Balance, February 28, 2021	\$ 141,617	\$ 29,841	\$ 5,442	\$ 1,103	\$ 11,565	\$ 189,568
Balance, March 1, 2020	\$ 132,954	\$ 28,752	\$ 5,604	\$ 1,672	\$ 15,655	\$ 184,637

Construction-in-progress includes store build costs for stores not yet opened.

During the year ended February 28, 2021, interest of \$87 was capitalized to assets under construction (March 1, 2020 - \$165). These interest costs relating to qualifying assets were capitalized at a weighted average rate of 2.53% (March 1, 2020 – 3.49%).

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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, 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
Additions	-	-	-	625	-	-	625
Transfers from construction-in-progress	-	-	-	2,070	-	(2,070)	-
Transfers from property, plant and equipment	-	-	-	889	-	-	889
Dispositions	-	-	-	(471)	-	-	(471)
Balance, February 28, 2021	\$ 46,092	\$ 17,175	\$ 2,009	\$ 35,322	\$ -	\$ -	\$ 100,598
Accumulated amortization							
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
Amortization	-	656	23	2,653	-	-	3,332
Dispositions	-	-	-	(471)	-	-	(471)
Balance, February 28, 2021	\$ -	\$ 12,209	\$ 1,732	\$ 24,608	\$ -	\$ -	\$ 38,549
Net carrying value							
Balance, February 28, 2021	\$ 46,092	\$ 4,966	\$ 277	\$ 10,714	\$ -	\$ -	\$ 62,049
Balance, March 1, 2020	\$ 46,092	\$ 5,622	\$ 300	\$ 9,783	\$ -	\$ 2,070	\$ 63,867

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 February 28, 2021 and March 1, 2020, 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

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recoverable amounts have been determined based on the higher of the value in use and fair value less costs of disposal.

The temporary boutique closures as a result of COVID-19 and the associated reduction of revenue during the 13-week period ended May 31, 2020 was considered to be an indicator of impairment. The Company performed a recoverability assessment in the first quarter of fiscal 2021 for its property and equipment, definite and indefinite life intangible assets, goodwill and right-of-use assets and determined that there was no impairment. The Company also performed its annual impairment test of goodwill and the indefinite life trade name on the first day of the fourth quarter in fiscal 2021 and fiscal 2020.

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 9.58% 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 February 28, 2021 and March 1, 2020, management has determined that there was no impairment of goodwill or the indefinite life trade name.

8 Leases

The Company has the right to use real estate properties for its boutiques, distribution centers and support offices under non-cancellable lease agreements, together with periods covered by an option to extend or terminate, if the Company is reasonably certain it will exercise those options.

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The following table reconciles the change in right-of-use assets for the year ended February 28, 2021:

	Right-of-use assets
Cost	
Balance, March 1, 2020	\$ 439,870
Additions, net of lease incentives received	67,171
Modifications	(7,464)
Foreign exchange	(15,565)
	<u>484,012</u>
Balance, February 28, 2021	<u>\$ 484,012</u>
Accumulated depreciation	
Balance, March 1, 2020	\$ 59,510
Depreciation	66,278
Modifications	(1,408)
Foreign exchange	(3,785)
	<u>120,595</u>
Balance, February 28, 2021	<u>\$ 120,595</u>
Net carrying value	
Balance, March 1, 2020	\$ 380,360
Balance, February 28, 2021	\$ 363,417

The following table reconciles the change in lease liabilities for the year ended February 28, 2021:

	Lease liabilities
Balance, March 1, 2020	\$ 510,527
Additions	73,311
Interest expense on lease liabilities (note 17)	23,671
Repayment of interest and principal on lease liabilities	(74,331)
Rent concessions applicable to lease liabilities	(13,903)
Modifications	(6,607)
Foreign exchange	(17,836)
	<u>494,832</u>
Balance, February 28, 2021	<u>\$ 494,832</u>
Current portion of lease liabilities	71,452
Lease liabilities	<u>423,380</u>
	<u>\$ 494,832</u>

During the year ended February 28, 2021, the Company expensed \$2.9 million of variable lease payments, which are not included in the lease liabilities (March 1, 2020 - \$5.2 million).

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During the year ended February 28, 2021, the Company expensed \$1.0 million of lease payments relating to short-term leases for which the recognition exemption was applied and these payments were not included in the lease liabilities (March 1, 2020 – 1.3 million).

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

Less than 1 year	\$	95,367
Between 1 and 5 years		335,436
More than 5 years		148,494
		<hr/>
	\$	579,297

As at February 28, 2021, the Company had future undiscounted minimum lease payments of \$53.5 million for leases committed to but not yet commenced.

9 Accounts payable and accrued liabilities

	February 28, 2021	March 1, 2020
Trade accounts payable	\$ 96,540	\$ 36,084
Other non-trade payables	11,521	6,856
Employee benefits payable	23,040	14,775
Current portion of Restricted Share Unit Program liability (note 14)	792	-
	<hr/>	<hr/>
	\$ 131,893	\$ 57,715

10 Other non-current liabilities

	February 28, 2021	March 1, 2020
Deferred lease inducements	\$ 6,920	\$ 6,029
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 14)	6,930	3,061
Deferred payroll taxes	852	-
Asset retirement obligations	357	361
	<hr/>	<hr/>
	\$ 15,059	\$ 9,451

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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

	February 28, 2021	March 1, 2020
Term loan	\$ 75,000	\$ 75,000
Less: Deferred financing fees	(145)	(260)
Long-term debt	<u>\$ 74,855</u>	<u>\$ 74,740</u>

The term loan matures on May 22, 2022 and has 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 1, 2020 – 0.50% and 2.50%).

During the year ended February 28, 2021 the Company incurred \$3.2 million of interest (March 1, 2020 - \$2.9 million), at a weighted average rate of 2.53% (March 1, 2020 – 3.49%). As at February 28, 2021, the interest rate on the loan was 2.20% (March 1, 2020 – 3.43%), 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 February 28, 2021 and March 1, 2020, 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.

b) Bank indebtedness

The Company has a revolving credit facility of \$100.0 million (March 1, 2020 - \$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 1, 2020 – 0.50% and 2.50%). Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan. During the year ended February 28, 2021, \$100.0 million of the revolving credit facility was drawn and subsequently repaid (March 1, 2020 - \$25.0 million drawn and subsequently repaid). As of February 28, 2021 and March 1, 2020, 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 \$33.7 million (March 1, 2020 - \$46.5 million) by certain open letters of credit (note 20(b)).

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The Credit Facilities are collateralized by a first priority lien on all property and equipment, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. As at February 28, 2021 and March 1, 2020, the Company was in compliance with all financial covenants.

12 Financial instruments

Accounting classification and fair values

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

	February 28, 2021	March 1, 2020
Financial assets		
Cash and cash equivalents	\$ 149,147	\$ 117,750
Accounts receivable	6,202	6,555
Equity derivative contracts	4,369	650
Financial liabilities		
Accounts payable and accrued liabilities	\$ 131,893	\$ 57,715
Long-term debt (net of deferred financing fees)	74,855	74,740

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:

	February 28, 2021	March 1, 2020
Long-term debt (Level 2)	\$ 75,000	\$ 75,000
Equity derivative contracts (Level 2)	4,369	650

Derivative financial instruments

The Company has equity derivative contracts to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts are not designated as hedging instruments for accounting purposes. During the year ended February 28, 2021, the Company recorded an unrealized gain of \$3.7 million for the change in fair value for these contracts in the consolidated statements of operations in other income (March 1, 2020 - \$0.7 million). As at February 28, 2021, the equity derivative contracts had a positive fair value of \$4.4 million (March 1, 2020 - \$0.7 million) which is recorded in prepaid expenses and other current assets in the consolidated statements of financial position.

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13 Share capital

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 ended 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.

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.

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 28, 2020, the Company further amended its ASPP such that no additional trading windows will be authorized, which effectively terminated any further purchases under the ASPP.

Between March 2, 2020 and March 17, 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.

As at February 28, 2021, there were 24,537,349 multiple voting shares and 85,416,470 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at February 28, 2021. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

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14 Stock options

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

Legacy Plan

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

Transactions for stock options granted under the Legacy Plan for the years ended on February 28, 2021 and March 1, 2020 were as follows:

	February 28, 2021		March 1, 2020	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	3,624,983	\$ 4.85	5,081,717	\$ 4.64
Exercised	(565,659)	3.37	(1,325,988)	3.79
Forfeited	-	-	(130,746)	7.09
Outstanding, at end of year	<u>3,059,324</u>	<u>\$ 5.13</u>	<u>3,624,983</u>	<u>\$ 4.85</u>
Exercisable, at end of year	2,988,322	\$ 5.08	3,251,195	\$ 4.67

Information relating to stock options outstanding under the Legacy Plan and exercisable as at February 28, 2021 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 \$4.72	871,985	2.18	\$3.59	871,985	2.18	\$3.59
\$4.73 to \$5.59	1,107,838	1.43	\$5.01	1,107,838	1.43	\$5.01
\$5.60 to \$7.09	1,079,501	4.92	\$6.50	1,008,499	4.90	\$6.45
	<u>3,059,324</u>	<u>2.88</u>	<u>\$5.13</u>	<u>2,988,322</u>	<u>2.82</u>	<u>\$5.08</u>

Stock-based compensation expense in relation to the options under the Legacy Plan for the year ended February 28, 2021 was \$0.5 million (March 1, 2020 – \$1.1 million).

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Option Plan

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 February 28, 2021 and March 1, 2020 were as follows:

	February 28, 2021		March 1, 2020	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	4,158,524	\$ 15.22	4,767,727	\$ 14.81
Granted	1,272,766	18.82	385,408	18.44
Exercised	(78,263)	14.73	(447,375)	14.75
Forfeited	(144,749)	14.87	(547,236)	14.28
Outstanding, at end of year	5,208,278	\$ 16.12	4,158,524	\$ 15.22
Exercisable, at end of year	2,363,805	\$ 15.13	1,629,235	\$ 15.06

Information relating to stock options outstanding under the Option Plan and exercisable as at February 28, 2021 is as follows:

	Stock options outstanding			Stock options exercisable		
Exercise prices per share	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
\$12.99 to \$14.12	1,621,389	3.69	\$13.74	954,051	3.70	\$13.76
\$14.13 to \$16.81	1,870,827	2.87	\$15.83	1,305,654	2.85	\$15.90
\$16.82 to \$26.38	1,716,062	6.12	\$18.68	104,100	5.23	\$18.13
	5,208,278	4.20	\$16.12	2,363,805	3.29	\$15.13

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The weighted average fair value of the time-based stock options granted during the year ended February 28, 2021 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	34.7% to 36.1%
Risk-free interest rate	0.4% to 0.5%
Expected life	6.0 to 7.0 years
Exercise price	\$18.29 to \$26.38

Stock-based compensation expense in relation to the options under the Option Plan for the year ended February 28, 2021 was \$5.5 million (March 1, 2020 - \$4.8 million).

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. 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 \$4.6 million at February 28, 2021 (March 1, 2020 – \$2.4 million), with an expense of \$2.2 million for the year ended February 28, 2021 (March 1, 2020 - \$1.3 million), recorded as stock-based compensation expense.

Transactions for DSUs granted for the years ended on February 28, 2021 and March 1, 2020 were as follows:

	February 28, 2021	March 1, 2020
	Number of DSUs	Number of DSUs
Outstanding, at beginning of year	108,959	65,191
Granted	44,152	43,768
Outstanding, at end of year	<u>153,111</u>	<u>108,959</u>
Vested, at end of year	153,111	108,959

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(in thousands of Canadian dollars, unless otherwise noted)

Restricted Share Unit (“RSU”) Program

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 \$3.1 million as at February 28, 2021 (March 1, 2020 – \$0.7 million), with an expense of \$2.5 million for the year ended February 28, 2021 (March 1, 2020 - \$0.6 million), recorded as stock-based compensation expense.

Transactions for RSUs granted for the periods ended on the dates indicated below were as follows:

	February 28, 2021	March 1, 2020
	Number of RSUs	Number of RSUs
Outstanding, at beginning of year	145,790	38,099
Granted	208,405	116,364
Forfeited	(5,149)	(8,673)
Outstanding, at end of year	<u>349,046</u>	<u>145,790</u>
Vested, at end of year	-	-

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(in thousands of Canadian dollars, unless otherwise noted)

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.

	February 28, 2021	March 1, 2020
Net income attributable to shareholders of the Company	\$ 19,227	\$ 90,594
Weighted average number of shares outstanding during the period (thousands)	109,487	108,411
Basic net income per share	<u>\$ 0.18</u>	<u>\$ 0.84</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.

	February 28, 2021	March 1, 2020
Net income attributable to shareholders of the Company	\$ 19,227	\$ 90,594
Weighted average number of shares for net income per diluted share (thousands)	112,844	112,128
Net income per diluted share	<u>\$ 0.17</u>	<u>\$ 0.81</u>

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

16 Net Revenue

Net revenue disaggregated for boutiques and online sales was as follows:

	February 28, 2021	March 1, 2020
Retail net revenue	\$ 431,394	\$ 754,391
eCommerce net revenue	425,929	226,198
	<u>\$ 857,323</u>	<u>\$ 980,589</u>

17 Expenses by nature

	February 28, 2021	March 1, 2020
Cost of goods sold		
Inventory and product-related costs and occupancy costs (note 1)	\$ 450,018	\$ 492,403
Depreciation expense on right-of-use-assets (note 8)	64,405	57,229
Depreciation expense on property and equipment (note 6)	30,395	27,533
	<u>\$ 544,818</u>	<u>\$ 577,165</u>

	February 28, 2021	March 1, 2020
Personnel expenses		
Salaries, wages and employee benefits	\$ 223,294	\$ 184,556
Stock-based compensation expense	10,691	7,790
Government payroll subsidies (note 1)	(32,603)	-
	<u>\$ 201,382</u>	<u>\$ 192,346</u>

	February 28, 2021	March 1, 2020
Finance expense		
Interest expense on lease liabilities (note 8)	\$ 23,671	\$ 23,763
Interest expense and banking fees	4,537	4,344
Amortization of deferred financing fees	212	212
	<u>\$ 28,420</u>	<u>\$ 28,319</u>

	February 28, 2021	March 1, 2020
Other income		
Realized foreign exchange gain	\$ (1,399)	\$ (964)
Unrealized foreign exchange loss	3,149	593
Unrealized gain on equity derivative contracts (note 12)	(3,701)	(650)
Interest and other income	(1,583)	(1,164)
	<u>\$ (3,534)</u>	<u>\$ (2,185)</u>

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

18 Income taxes

a) Income tax expense

	February 28, 2021	March 1, 2020
Current tax expense		
Current period	\$ 8,752	\$ 35,254
Adjustments with respect to prior periods	(3,978)	(875)
	<u>4,774</u>	<u>34,379</u>
Deferred tax expense		
Origination and reversal of temporary differences	(776)	462
Adjustments with respect to prior periods	2,977	879
Changes in substantively enacted tax rates	-	(176)
	<u>2,201</u>	<u>1,165</u>
Income tax expense	<u>\$ 6,975</u>	<u>\$ 35,544</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 February 28, 2021 and March 1, 2020 of 26.7% and 26.8%, respectively, as follows:

	February 28, 2021	March 1, 2020
Income before income taxes	<u>\$ 26,202</u>	<u>\$ 126,138</u>
Expected income tax expense	\$ 6,991	\$ 33,805
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation	1,609	1,561
Foreign tax rate differences	38	164
Changes in substantively enacted tax rates	-	(176)
U.S. CARES Act true-up (note 1)	(1,965)	-
Other	302	190
Income tax expense	<u>\$ 6,975</u>	<u>\$ 35,544</u>

Aritzia Inc.
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(in thousands of Canadian dollars, unless otherwise noted)

c) Deferred income tax

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at February 28, 2021 and March 1, 2020 are as follows:

	February 28, 2021	March 1, 2020
Deferred tax assets		
Capital leases	\$ 35,772	\$ 36,360
Accounts payable and accrued liabilities	4,079	1,494
Deferred revenue	2,799	1,600
Deferred lease liability	2,075	1,810
Other	2,045	1,034
Financing and share issuance costs	901	1,004
Stock-based compensation	892	637
Charitable contributions	385	204
	<hr/>	<hr/>
Total deferred tax assets	48,948	44,143
Deferred tax liabilities		
Property and equipment	(26,627)	(19,393)
Goodwill and intangible assets	(24,478)	(23,664)
Other	(34)	(137)
	<hr/>	<hr/>
Total deferred tax liabilities	(51,139)	(43,194)
Net deferred tax liability	<u>\$ (2,191)</u>	<u>\$ 949</u>

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

	February 28, 2021	March 1, 2020
Deferred tax expense recorded in net income	\$ 2,201	\$ 1,166
Deferred tax expense (recovery recorded in retained earnings)	-	(14,271)
Deferred tax expense recorded in other comprehensive income (loss)	939	(240)
	<hr/>	<hr/>
	<u>\$ 3,140</u>	<u>\$ (13,345)</u>

Of the deferred income tax balances, the Company expects \$12.2 million of the deferred tax assets to be recovered within 12 months and \$9.5 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.

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

19 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:

	February 28, 2021	March 1, 2020
Canada	\$ 565,591	\$ 642,973
United States	291,732	337,616
	<u>\$ 857,323</u>	<u>\$ 980,589</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:

	February 28, 2021	March 1, 2020
Canada	\$ 458,729	\$ 483,112
United States	307,987	297,434
	<u>\$ 766,716</u>	<u>\$ 780,546</u>

20 Commitments and contingencies

a) Product purchase obligations

At February 28, 2021, the Company had purchase obligations of \$69.8 million (March 1, 2020 - \$42.2 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 February 28, 2021, the Company had open letters of credit of \$41.3 million (March 1, 2020 - \$28.5 million).

Aritzia Inc.

Notes to Consolidated Financial Statements

February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars, unless otherwise noted)

21 Related party transactions

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. and related entities which are controlled by a director and officer of the Company.

The Company entered into the following transactions with related parties:

- a) During the year ended February 28, 2021, the Company made payments of \$4.2 million (March 1, 2020 - \$4.0 million) for lease of premises and management services and \$0.7 million (March 1, 2020 - \$0.6 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 February 28, 2021, the outstanding balance of lease liabilities owed to these companies was \$11.6 million (March 1, 2020 - \$12.6 million). At February 28, 2021, \$0.2 million was included in accounts payable and accrued liabilities (March 1, 2020 - \$0.2 million). These transactions were measured at the amount of consideration established at market terms.
- b) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	February 28, 2021	March 1, 2020
Salaries, directors' fees and short-term benefits	\$ 3,860	\$ 3,981
Stock-based compensation expense	4,135	3,111
	<u>\$ 7,995</u>	<u>\$ 7,092</u>

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(in thousands of Canadian dollars, unless otherwise noted)

22 Supplemental cash flow information

	February 28, 2021	March 1, 2020
Net change in non-cash working capital balances		
Accounts receivable	\$ (3,183)	\$ 82
Inventory	(79,508)	18,462
Prepaid expenses and other current assets	(9,332)	(1,351)
Other assets	1,265	(2,186)
Accounts payable and accrued liabilities	85,386	(1,444)
Deferred revenue	9,285	5,062
	<u>\$ 3,913</u>	<u>\$ 18,625</u>
Accrued purchases of property and equipment	\$ 2,940	\$ 6,168
Accrued purchases of intangible assets	-	266

23 Financial 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.

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 United States. 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 February 28, 2021, 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 \$0.2 million on net income.

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Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents and 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 ended February 28, 2021, the Company had only variable interest 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 term loan.

Equity price risk

The Company is 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 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. As at February 28, 2021, an increase (or decrease) in the Company's share price by \$1.00 would result in an increase (or decrease) of \$0.3 million in the fair value of the liability.

b) Credit risk

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

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 February 28, 2021 and March 1, 2020, no advances were made under this revolving credit facility. As at February 28 2021, the Company also had available credit of \$75.0 million under trade finance agreements (March 1, 2020 – \$75.0 million), of which \$41.3 million of letters of credit were outstanding (March 1, 2020 – \$28.5 million).

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The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at February 28, 2021:

	Within one year	After one but not more than 5 years	After 5 years	Total
Accounts payable and accrued liabilities	\$ 131,893	\$ -	\$ -	\$ 131,893
Assumed interest on long-term debt ⁽¹⁾	1,649	379	-	2,028
Long-term debt	-	75,000	-	75,000
Total	\$ 133,542	\$ 75,379	\$ -	\$ 208,921

⁽¹⁾ Based on interest rates in effect as at February 28, 2021, and assuming no unscheduled principal payments are made prior to maturity.

24 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 an acceptable risk and preserves the ability to meet financial obligations.

The Company defines capital as its Credit Facilities and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new boutique additions, existing boutique 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.

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 Audit Committee
Marni Payne	Director, Chair of Compensation and Nominating Committee
Glen Senk	Director
Marcia Smith	Director, Member of Compensation and Nominating 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 Ingledew	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

Support Office

611 Alexander St, Suite 118
Vancouver, British Columbia
V6A 1E1, Canada
aritzia.com
+1 604 251 3132

Investor Inquiries

Helen Kelly
Vice President, Investor Relations
investor@aritzia.com
+1 604 215 6557

Transfer Agent

TSX Trust
TMXEInvestorServices@tmx.com
+1 416 361 0930

Annual Special and Special Meeting

July 7, 2021

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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