

ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Third Quarter of Fiscal 2023

For the 13-week and 39-week periods ended
November 27, 2022 and November 28, 2021

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at November 27, 2022 and February 27, 2022

(Unaudited, in thousands of Canadian dollars)

	Note	November 27, 2022	February 27, 2022
Assets			
Cash and cash equivalents		\$ 131,898	\$ 265,245
Accounts receivable		17,710	8,147
Income taxes recoverable		3,951	6,455
Inventory	5	508,392	208,125
Prepaid expenses and other current assets	12	42,315	33,564
Total current assets		\$ 704,266	\$ 521,536
Property and equipment	6	281,260	223,190
Intangible assets	7	86,375	87,398
Goodwill	7	198,846	198,846
Right-of-use assets	8	452,499	362,887
Other assets		4,595	4,271
Deferred tax assets		14,798	26,458
Total assets		\$ 1,742,639	\$ 1,424,586
Liabilities			
Accounts payable and accrued liabilities	9	\$ 319,364	\$ 179,344
Income taxes payable		129	58,917
Current portion of contingent consideration	12	6,619	6,619
Current portion of lease liabilities	8	96,505	86,724
Deferred revenue		92,556	55,721
Total current liabilities		\$ 515,173	\$ 387,325
Lease liabilities	8	507,454	417,067
Other non-current liabilities	10	23,921	22,359
Contingent consideration	12	—	6,618
Non-controlling interest in exchangeable shares liability	12	35,500	35,500
Deferred tax liabilities		21,106	24,906
Total liabilities		\$ 1,103,154	\$ 893,775
Shareholders' equity			
Share capital	13	\$ 260,029	\$ 251,291
Contributed surplus		64,936	56,342
Retained earnings		317,932	223,553
Accumulated other comprehensive loss		(3,412)	(375)
Total shareholders' equity		639,485	530,811
Total liabilities and shareholders' equity		\$ 1,742,639	\$ 1,424,586

Commitments and contingencies

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Operations

For the 13-week and 39-week periods ended November 27, 2022 and November 28, 2021

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

	Note	13-week periods ended		39-week periods ended	
		November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Net revenue	16, 19	\$ 624,615	\$ 453,323	\$ 1,558,048	\$ 1,050,308
Cost of goods sold	17	353,952	243,181	886,216	574,862
Gross profit		270,663	210,142	671,832	475,446
Operating expenses					
Selling, general and administrative		163,737	110,084	431,170	272,581
Stock-based compensation expense	14, 17	11,558	9,109	21,212	20,406
Income from operations		95,368	90,949	219,450	182,459
Finance expense	8, 11, 17	9,056	6,160	21,762	19,110
Other expense (income)	12, 17	(11,994)	(6,218)	(11,968)	(9,523)
Income before income taxes		98,306	91,007	209,656	172,872
Income tax expense	18	27,578	26,066	59,406	50,180
Net income		\$ 70,728	\$ 64,941	\$ 150,250	\$ 122,692
Net income per share					
Basic	15	\$ 0.64	\$ 0.59	\$ 1.36	\$ 1.11
Diluted	15	\$ 0.61	\$ 0.56	\$ 1.30	\$ 1.06
Weighted average number of shares outstanding (thousands)					
Basic	15	109,810	110,504	110,242	110,241
Diluted	15	115,154	116,140	115,252	115,402

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

For the 13-week and 39-week periods ended November 27, 2022 and November 28, 2021

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Net income	\$ 70,728	\$ 64,941	\$ 150,250	\$ 122,692
Other comprehensive loss (income)				
Items that are or may be reclassified subsequently to net income:				
Foreign currency translation adjustment	(1,858)	(110)	(3,037)	48
Comprehensive income	\$ 68,870	\$ 64,831	\$ 147,213	\$ 122,740

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 39-week periods ended November 27, 2022 and November 28, 2021

(Unaudited, 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, February 28, 2021	24,537,349	\$ 17,737	85,416,470	\$ 210,928	\$ 56,606	\$ 75,216	\$ (224)	\$ 360,263
Net Income	—	—	—	—	—	122,692	—	122,692
Options exercised (note 14)	—	—	828,151	13,662	(7,706)	—	—	5,956
Stock-based compensation expense on equity-settled plans (note 14)	—	—	—	—	8,131	—	—	8,131
Share exchange at secondary offering (note 13)	(2,600,000)	(1,879)	2,600,000	1,879	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	48	48
Balance, November 28, 2021	21,937,349	\$ 15,858	88,844,621	\$ 226,469	\$ 57,031	\$ 197,908	\$ (176)	\$ 497,090
Balance, February 27, 2022	21,937,349	\$ 15,858	89,181,069	\$ 235,433	\$ 56,342	\$ 223,553	\$ (375)	\$ 530,811
Net Income	—	—	—	—	—	150,250	—	150,250
Options exercised (note 14)	—	—	668,327	13,023	(5,064)	—	—	7,959
Stock-based compensation expense on equity-settled plans (note 14)	—	—	—	—	13,658	—	—	13,658
Shares exchange at secondary offering (note 13)	(97,100)	(70)	97,100	70	—	—	—	—
Shares repurchased for cancellation (note 13)	—	—	(1,619,580)	(4,285)	—	(55,871)	—	(60,156)
Foreign currency translation adjustment	—	—	—	—	—	—	(3,037)	(3,037)
Balance, November 27, 2022	21,840,249	\$ 15,788	88,326,916	\$ 244,241	\$ 64,936	\$ 317,932	\$ (3,412)	\$ 639,485

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the 13-week and 39-week periods ended November 27, 2022 and November 28, 2021

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		39-week periods ended	
		November 27, 2022	November 28, 2021 (note 22)	November 27, 2022	November 28, 2021 (note 22)
Operating activities					
Net income for the period		\$ 70,728	\$ 64,941	\$ 150,250	\$ 122,692
Adjustments for:					
Depreciation and amortization	6,7	13,434	11,238	38,238	32,459
Depreciation on right-of-use assets	8	21,204	17,461	57,883	50,465
Fair value adjustment for inventory acquired in CYC Design Corporation		—	1,902	—	1,902
Fair value adjustment of non-controlling interest in exchangeable shares liability	17	—	2,000	—	2,000
Finance expense	17	9,056	6,160	21,762	19,110
Stock-based compensation expense	14, 17	11,558	9,109	21,212	20,406
Amortization of deferred lease inducements		(265)	(253)	(804)	(790)
Unrealized loss (gain) on equity derivative contracts	12, 17	(4,793)	(6,950)	(43)	(12,186)
Income tax expense	18	27,578	26,066	59,406	50,180
Rent concessions relating to lease liabilities	8	—	(868)	—	(2,318)
Cash generated before non-cash working capital balances and interest and income taxes		148,500	130,806	347,904	283,920
Net change in non-cash working capital	22	(3,485)	88,196	(154,658)	93,106
Cash generated before interest and income taxes		145,015	219,002	193,246	377,026
Interest paid		(1,849)	(525)	(3,233)	(1,878)
Interest paid on lease liabilities	8	(7,207)	(6,511)	(18,528)	(16,930)
Income taxes paid		(21,227)	(4,513)	(106,756)	(20,598)
Net cash generated from operating activities		114,732	207,453	64,729	337,620
Financing activities					
Payment of financing fees	11	—	(46)	—	(651)
Repayment of principal on lease liabilities	8	(21,922)	(17,956)	(64,878)	(44,341)
Proceeds from lease incentives		6,039	2,018	10,801	10,114
Proceeds from options exercised	14	6,389	3,460	7,959	5,956
Shares repurchased for cancellation	13	(5,336)	—	(61,124)	—
Repayment of long-term debt	11	—	—	—	(75,000)
Net cash used in financing activities		(14,830)	(12,524)	(107,242)	(103,922)
Investing activities					
Purchase of property and equipment	6	(31,314)	(21,588)	(82,600)	(45,296)
Purchase of intangible assets	7	(1,087)	(748)	(1,748)	(991)
Acquisition of CYC Design Corporation, net of cash acquired		—	—	—	(32,555)
Contingent consideration payout, net relating to the acquisition of CYC Design Corporation	12	—	—	(5,625)	—
Cash used in investing activities		(32,401)	(22,336)	(89,973)	(78,842)
Effect of exchange rate changes on cash and cash equivalents		(1,027)	1,543	(861)	1,929
Change in cash and cash equivalents		66,474	174,136	(133,347)	156,785
Cash and cash equivalents – Beginning of period		65,424	131,796	265,245	149,147
Cash and cash equivalents – End of period		\$ 131,898	\$ 305,932	\$ 131,898	\$ 305,932

Supplemental cash flow information

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

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Notes to Condensed Interim Consolidated Financial Statements

November 27, 2022

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

1 Nature of operations and basis of presentation

Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the “Company”) are a vertically integrated design house. The Company is a creator and purveyor of Everyday Luxury, home to an extensive portfolio of exclusive brands for every function and individual aesthetic. The Company provides immersive and highly personal shopping experiences at aritzia.com and in 100+ boutiques throughout North America.

On June 25, 2021, the Company acquired 75% of the common shares in CYC Design Corporation (“CYC”), a leading designer and manufacturer of premium athletic wear, Reigning Champ. This acquisition will accelerate the Company’s product expansion into men’s wear. The results of operations, financial position, and cash flows of CYC have been included in the Company’s consolidated financial statements since the date of acquisition.

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

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

Basis of presentation

These unaudited condensed interim consolidated financial statements (“interim financial statements”) have been prepared under International Financial Reporting Standards (“IFRS”) in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements. Certain information, in particular the accompanying notes normally included in the audited annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 27, 2022 (“Fiscal 2022”). These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

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 interim consolidated financial statements were authorized for issue on January 11, 2023 by the Audit Committee on behalf of the Company’s Board of Directors (“Board”).

COVID-19 Pandemic

The outbreak of a novel strain of coronavirus (“COVID-19”) caused governments and public health officials to impose restrictions and recommend precautions to mitigate the spread of the virus. Since the start of the

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pandemic, the Company experienced intermittent temporary boutique closures and capacity restrictions as a result of government and health authority guidance. In the first quarter of Fiscal 2022, 34 locations in Ontario, Quebec and Nova Scotia were temporarily closed for approximately two-thirds of the quarter. As at July 12 2021, all of the Company's boutiques had reopened. The Company's operations continue to be indirectly impacted by the COVID-19 pandemic through the trailing effects of the global supply chain disruptions. The extent of the impact of COVID-19 on future periods will depend on future developments, including the duration or resurgence of the pandemic, related government responses and the impact on the global economy, which are uncertain and cannot be predicted. Management continues to monitor and assess the impact on the business as well as on certain estimates and judgments.

2 Summary of significant accounting policies

These interim financial statements have been prepared using the accounting policies as outlined in note 2 of the Fiscal 2022 audited consolidated financial statements, with the exception of any accounting standards adopted in the year ending February 26, 2023 ("Fiscal 2023").

3 Significant new accounting standards

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 is currently assessing the potential impact of these amendments.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently assessing the potential impact of these amendments.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments also clarify that accounting

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policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted and are to be applied prospectively. The Company is currently assessing the potential impact of these amendments.

Deferred Tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)

In May 2021, the IASB issued targeted amendments to IAS 12 – Income Taxes to specify how companies account for deferred tax on transactions such as leases and decommissioning obligations. In specific circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations transactions for which companies recognize both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognize deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Company is currently assessing the potential impact of these amendments.

4 Critical accounting estimates and judgments

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

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in note 4 of the Fiscal 2022 audited consolidated financial statements.

5 Inventory

	November 27, 2022	February 27, 2022
Finished goods	\$ 406,507	\$ 131,954
Finished goods in transit	93,649	69,656
Raw materials	8,236	6,515
Inventory	\$ 508,392	\$ 208,125

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 \$1.4 million and \$4.2 million for the 13-week and 39-week periods ended

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November 27, 2022 and November 28, 2021 (13-week and 39-week periods ended November 28, 2021 - \$1.9 million and \$6.4 million, respectively). No inventory write-downs recorded in previous periods were reversed.

All of the Company's inventory is pledged as security for the Company's revolving credit facility (note 11).

As part of the CYC acquisition on June 25, 2021, the Company acquired inventory with a fair value of \$8.6 million at the time of acquisition. During the 13-week period ended November 28, 2021, the Company recognized \$1.9 million relating to the purchase price fair value adjustment included in cost of goods sold for inventory sold.

6 Property and equipment

During the 13-week and 39-week periods ended November 27, 2022, the Company had property and equipment additions of \$34.7 million and 88.2 million, respectively (13-week and 39-week periods ended November 28, 2021- \$23.2 million and \$52.4 million, respectively), the majority of which were related to leasehold improvements made to its boutiques and distribution centers, and the purchase of furniture and equipment for such boutiques and distribution centers.

7 Goodwill and intangible assets

During the 13-week and 39-week periods ended November 27, 2022, the Company had intangible asset additions of \$1.0 million and \$1.9 million, respectively (13-week and 39-week periods ended November 28, 2021 - \$0.5 million and \$1.2 million, respectively), the majority of which were related to internally developed computer software.

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

The following table reconciles the change in right-of-use assets for the 39-week period ended November 27, 2022:

	Right-of-use assets
Cost	
Balance, February 27, 2022	\$ 549,778
Additions, net of lease incentives received	98,309
Modifications	28,164
Foreign exchange	16,841
Balance, November 27, 2022	\$ 693,092
Accumulated depreciation	
Balance, February 27, 2022	\$ 186,891
Depreciation	57,484
Amortization of fair value adjustment on CYC leases	399
Modifications	(10,327)
Foreign exchange	6,146
Balance, November 27, 2022	\$ 240,593
Net carrying value	
Balance, February 27, 2022	\$ 362,887
Balance, November 27, 2022	\$ 452,499

The following table reconciles the change in the lease liabilities for the 39-week period ended November 27, 2022:

	Lease liabilities
Balance, February 27, 2022	\$ 503,791
Additions	113,025
Interest expense on lease liabilities (note 17)	18,528
Repayment of interest and principal on lease liabilities	(83,406)
Modifications	36,928
Foreign exchange	15,093
Balance, November 27, 2022	\$ 603,959
Current portion of lease liabilities	96,505
Long-term portion of lease liabilities	507,454
Lease liabilities	\$ 603,959

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Notes to Condensed Interim Consolidated Financial Statements

November 27, 2022

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

The following table summarizes the Company's rent and rent-related expenses:

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Depreciation on right-of-use assets, excluding fair value adjustments	\$ 21,071	\$ 17,238	\$ 57,484	\$ 50,242
Interest expense on lease liabilities (note 17)	7,207	5,624	18,528	16,867
Variable lease expense	8,555	4,505	20,451	8,312
Lease payments relating to short-term or low value leases	624	143	1,896	1,094
Common area maintenance, property taxes and other	10,301	9,461	29,533	27,703
Total rent and rent-related expenses	\$ 47,758	\$ 36,971	\$ 127,892	\$ 104,218

9 Accounts payable and accrued liabilities

	November 27, 2022	February 27, 2022
Trade accounts payable	\$ 208,055	\$ 124,506
Employee benefits payable	57,092	38,494
Other non-trade payables	46,923	12,469
Current portion of Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 14)	7,294	3,875
Accounts payable and accrued liabilities	\$ 319,364	\$ 179,344

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10 Other non-current liabilities

	November 27, 2022	February 27, 2022
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 14)	\$ 16,792	\$ 15,736
Deferred lease inducements	6,729	6,250
Asset retirement obligations	400	373
Other non-current liabilities	\$ 23,921	\$ 22,359

11 Bank indebtedness and long-term debt

On July 13, 2021, the Company refinanced its term loan and revolving credit facility, extending the term to July 13, 2025. As part of the refinancing, the Company repaid its term loan of \$75.0 million and increased its existing revolving credit facility from \$100.0 million to \$175.0 million. The Company incurred \$0.7 million of financing fees as part of the refinancing in the year ended February 27, 2022, which have been deferred and are being amortized over the term of the facility.

The revolving credit facility bears interest at BA, LIBO or Prime plus a marginal rate between 0.50% and 2.50% (February 27, 2022 – 0.50% and 2.50%). Up to \$10.0 million of the facility can be drawn upon by way of a swingline loan. As at November 27, 2022 and February 27, 2022, no advances were made under the revolving credit facility.

The Company also has letters of credit facilities of CAD\$50.0 million and US\$40.0 million, secured pari passu with the revolving credit facility. The interest rate for the letters of credit is between 1.00% and 2.50%. As at November 27, 2022, the amount available under these facilities was reduced to \$48.9 million (February 27, 2022 - \$31.5 million) by certain open letters of credit (Note 20(b)).

The revolving credit facility is collateralized by a first priority lien on all property and equipment, leased real property interests and inventory. In addition, the Company is required to maintain certain financial covenants. As at November 27, 2022 and February 27, 2022, the Company was in compliance with all financial covenants.

12 Financial instruments

Equity derivative contracts

The Company has equity derivative contracts (total return swaps) 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 13-week and 39-week periods ended November 27, 2022, the Company recorded unrealized gains of \$4.8 million and \$43.0 thousand, respectively for the change in fair value for these contracts in the condensed interim consolidated statements of operations in other expense (income) (13-week and 39-week periods ended November 28, 2021 - \$7.0 million and \$12.2 million, respectively). During the 13-week and 39-week periods ended November 27, 2022, the Company recorded realized gains of \$1.4 million (13-

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week and 39-week periods ended November 28, 2021 - \$nil) arising from the settlement of equity derivative contracts. As at November 27, 2022, the equity derivative contracts had a positive fair value of \$15.6 million (February 27, 2022 – \$15.6 million) which is recorded in prepaid expenses and other current assets in the condensed interim consolidated statements of financial position.

Contingent consideration

The Company has a contingent consideration under the CYC purchase agreement that is based on future operating results of CYC during the measurement period ending January 31, 2023. As at the acquisition date of CYC on June 25, 2021, the Company recorded a contingent consideration liability of \$13.2 million which is payable in two equal installments of \$6.6 million on May 31, 2022 and May 31, 2023. During the 39-week period ended November 27, 2022, the first installment was paid to CYC net of \$1.0 million in indemnities and shared costs pursuant to the purchase agreement. During the 39-week period ended November 27, 2022, there was no change in fair value of the remaining contingent consideration.

Non-controlling interest in exchangeable shares liability

In conjunction with the acquisition, CYC issued exchangeable shares to minority shareholders ("exchangeable shareholders") in exchange for their 25% share of the total common shares at acquisition. The exchangeable shares allow the holders to put back their shares to CYC in the following periods: one-third from May 1, 2024 to August 31, 2024, one-third from May 1, 2025 to August 31, 2025, and one-third from May 1, 2026 to August 31, 2026 (the "put options"). In the event that the exchangeable shareholders do not exercise the put options by August 31, 2026, the Company has an open-ended call option, but not an obligation, to purchase all of the shares held by the exchangeable shareholders (the "call option").

The exercise prices of the put options and the call option are based on certain specific operating results of CYC in the most recently completed fiscal year prior to exercise, subject to a capped enterprise value of \$60.0 million (remaining 25% purchase). Upon exercise, the options are settled through a variable number of the Company's shares based on a volume weighted average price (VWAP) of the Company's shares for 30 consecutive trading days.

The fair value of the non-controlling interest in exchangeable shares liability is estimated initially, and on a recurring basis, based on a Monte Carlo simulation that has been used to simulate the potential fluctuations in CYC's operating results over the period to exercise. The cash flows associated with the modelled operating results are then discounted back to the valuation date.

The fair value of the non-controlling interest in exchangeable shares liability was estimated for the 39-week period ended November 27, 2022 based on the Monte Carlo simulation using the following assumptions:

Initial business enterprise value (100%)	\$63.0 million
Capped enterprise value (remaining 25% purchase)	\$60.0 million
Gross profit expected volatility	23.0%
Gross profit discount rate	14.5%
Expected life	3.8 years

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As at November 27, 2022, the fair value of the non-controlling interest in exchangeable shares liability was \$35.5 million (February 27, 2022 - \$35.5 million).

13 Share capital

On May 13, 2021, the Company announced a secondary offering ("2021 Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain entities owned and or controlled directly or indirectly by Brian Hill, Founder and Executive Chair of the Company, or Brian Hill and his immediate family (the "Selling Shareholders"). The 2021 Secondary Offering of 3,040,700 subordinate voting shares raised gross proceeds of \$91.2 million for the Selling Shareholders, at a price of \$30.00 per subordinate voting share and was completed on June 1, 2021. The Company did not receive any proceeds from the 2021 Secondary Offering. As part of the 2021 Secondary Offering, during the 39-week period ended November 28, 2021, the Selling Shareholders exchanged 2,600,000 of their multiple voting shares for subordinate voting shares. Underwriting fees were paid by the Selling Shareholders, and other expenses related to the 2021 Secondary Offering of approximately \$0.5 million were paid by the Company.

On January 12, 2022, the Company announced the commencement of a normal course issuer bid (the "NCIB") to repurchase and cancel up to 3,732,725 of its subordinate voting shares, representing approximately 5% of the public float of 74,654,507, over the 12-month period commencing January 17, 2022 and ending January 16, 2023. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. The amounts paid above the average book value of the subordinate voting shares are charged to retained earnings. During the 39-week period ended November 27, 2022, the Company repurchased a total of 1,619,580 subordinate voting shares for cancellation at an average price of \$37.14 per subordinate voting share for total cash consideration of \$60.2 million. As at November 27, 2022, \$nil (February 27, 2022, \$1.0 million) of cash consideration related to subordinate voting share repurchases was recorded in accounts payable and accrued liabilities.

On May 18, 2022, the Company entered into an automatic 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. In relation to the secondary offering announced by the Company on November 14, 2022, the ASPP was automatically terminated, pursuant to its terms.

On November 14, 2022, the Company announced a secondary offering (the "2022 Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain entities owned and/or controlled, directly or indirectly, by Brian Hill, Founder and Executive Chair of Aritzia, or Brian Hill and his immediate family (collectively, the "Selling Shareholders"). The 2022 Secondary Offering of 1,500,000 subordinate voting shares raised gross proceeds of \$77.4 million for the Selling Shareholders, at a price of \$51.60 per subordinate voting share and was completed on November 30, 2022. The Company did not receive any proceeds from the 2022 Secondary Offering. As part of the 2022 Secondary Offering, during the 39-week period ended November 27, 2022, the Selling Shareholders exchanged 97,100 of their multiple voting shares

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for subordinate voting shares. Subsequent to November 27, 2022, on November 28, 2022, the Selling Shareholders exchanged an additional 1,402,900 of their multiple voting shares for subordinate voting shares. Underwriting fees were paid by the Selling Shareholders, and other expenses related to the 2022 Secondary Offering of approximately \$0.5 million will be paid by the Company.

As at November 27, 2022, there were 21,840,249 multiple voting shares and 88,326,916 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at November 27, 2022. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

14 Stock-based compensation

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

Legacy Plan

Following completion of the initial public offering in October 2016, no additional options will be granted under the Legacy Plan.

Transactions for stock options granted under the Legacy Plan for the 39-week periods ended November 27, 2022 and November 28, 2021 were as follows:

	November 27, 2022		November 28, 2021	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	2,213,883	\$ 5.35	3,059,324	\$ 5.13
Exercised	(252,780)	4.68	(622,618)	4.50
Outstanding, at end of period	1,961,103	\$ 5.43	2,436,706	\$ 5.29

Stock-based compensation expense in relation to the options under the Legacy Plan for the 13-week and 39-week periods ended November 27, 2022 was \$nil (13-week and 39-week periods ended November 28, 2021 – nil) as the options have been fully vested and expensed.

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Omnibus Plan

Transactions for stock options granted under the Omnibus Plan for the 39-week periods ended November 27, 2022 and November 28, 2021 were as follows:

	November 27, 2022		November 28, 2021	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	6,380,499	\$ 21.16	5,208,278	\$ 16.12
Granted	1,684,224	36.25	1,585,667	32.24
Exercised	(417,317)	16.24	(205,533)	15.37
Forfeited	(144,782)	29.17	(74,608)	22.02
Outstanding, at end of period	7,502,624	\$ 24.67	6,513,804	\$ 20.00

The weighted average fair value of the time-based stock options granted during the 39-week period ended November 27, 2022 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	39.5% to 42.0%
Risk-free interest rate	2.8% to 3.6%
Expected life	5.0 to 7.0 years
Exercise price	\$35.98 to \$49.31

Stock-based compensation expense in relation to the options under the Omnibus Plan for the 13-week and 39-week periods ended November 27, 2022 was \$4.1 million and \$10.3 million, respectively (13-week and 39-week periods ended November 28, 2021 - \$2.7 million and \$7.4 million, respectively).

Director Deferred Share Unit ("DSU") Program

Each eligible director receives a portion of his or her annual director retainer in DSUs. 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 \$9.0 million at November 27, 2022 (February 27, 2022 - \$7.6 million), with an expense of \$1.8 million and \$1.4 million, respectively for the 13-week and 39-week periods ended November 27, 2022 (13-week and 39-week periods ended November 28, 2021 - \$1.8 million and \$3.9 million, respectively), recorded as stock-based compensation expense.

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Transactions for DSUs granted for the 39-week periods ended November 27, 2022 and November 28, 2021 were as follows:

	November 27, 2022	November 28, 2021
	Number of DSUs	Number of DSUs
Outstanding, at beginning of period	153,826	153,111
Granted	21,353	20,894
Settled	—	(25,624)
Outstanding, at end of period	175,179	148,381

Restricted Share Unit ("RSU") Program

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 \$15.1 million as at November 27, 2022 (February 27, 2022 – \$12.0 million), with an expense of \$3.9 million and \$6.1 million, respectively for the 13-week and 39-week periods ended November 27, 2022 (13-week and 39-week periods ended November 28, 2021 - \$4.3 million and \$8.4 million, respectively), recorded as stock-based compensation expense.

Transactions for cash-settled RSUs granted for the 39-week periods ended November 27, 2022 and November 28, 2021 were as follows:

	November 27, 2022	November 28, 2021
	Number of RSUs	Number of RSUs
Outstanding, at beginning of period	652,846	349,046
Granted	—	305,644
Settled	(81,427)	—
Forfeited	(39,231)	(16,753)
Outstanding, at end of period	532,188	637,937

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Transactions for equity-settled RSUs granted for the 39-week period ended November 27, 2022 were as follows:

	November 27, 2022
	Number of RSUs
Outstanding, at beginning of period	—
Granted	351,908
Forfeited	(3,445)
Outstanding, at end of period	348,463

Stock-based compensation expense in relation to the equity-settled RSUs for the 13-week and 39-week periods ended November 27, 2022 was \$1.0 million and \$1.6 million, respectively.

Performance Share Unit (“PSU”) Program

In January 2021, the Company implemented a Performance Share Unit (“PSU”) Program. A PSU represents the right to receive a subordinated voting share settled by the issuance of treasury shares or purchased on the open market or the cash equivalent at the market value of a share at the vesting date or a combination of cash and shares at the discretion of the Board. PSUs vest on the third anniversary of the award date and are earned only if certain performance targets are achieved and can decrease or increase if minimum or maximum performance targets are achieved.

Transactions for PSUs granted for the 39-week periods ended November 27, 2022 and November 28, 2021 were as follows:

	November 27, 2022	November 28, 2021
	Number of PSUs	Number of PSUs
Outstanding, at beginning of period	96,836	—
Granted	104,224	96,836
Outstanding, at end of period	201,060	96,836
Unvested earned PSUs, at end of period	64,557	—

Stock-based compensation expense in relation to the PSUs for the 13-week and 39-week periods ended November 27, 2022 was \$0.7 million and \$1.7 million, respectively (13-week and 39-week periods ended November 28, 2021 - \$0.3 million and \$0.7 million, respectively).

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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.

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Net income attributable to shareholders of the Company	\$ 70,728	\$ 64,941	\$ 150,250	\$ 122,692
Weighted average number of shares outstanding during the year (thousands)	109,810	110,504	110,242	110,241
Basic net income per share	\$ 0.64	\$ 0.59	\$ 1.36	\$ 1.11

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, equity settled RSUs, PSUs and the non-controlling interest in exchangeable shares liability.

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Net income attributable to shareholders of the Company	\$ 70,728	\$ 64,941	\$ 150,250	\$ 122,692
Weighted average number of shares for net income per diluted share (thousands)	115,154	116,140	115,252	115,402
Net income per diluted share	\$ 0.61	\$ 0.56	\$ 1.30	\$ 1.06

For the 13-week and 39-week periods ended November 27, 2022, 709,717 and 1,881,209 stock options, respectively, along with the non-controlling interest in exchangeable shares liability were not included in the calculation of diluted net income per share as they were anti-dilutive (13-week and 39-week periods ended November 28, 2021 – 241,887 and 1,536,869 stock options, respectively).

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16 Net Revenue

Net revenue disaggregated for boutiques and eCommerce was as follows:

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Retail net revenue	\$ 423,224	\$ 305,345	\$ 1,062,678	\$ 667,936
eCommerce net revenue	201,391	147,978	495,370	382,372
Net revenue	\$ 624,615	\$ 453,323	\$ 1,558,048	\$ 1,050,308

17 Expenses by nature

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Cost of goods sold				
Inventory and product-related costs and occupancy costs	\$ 322,785	\$ 217,872	\$ 800,314	\$ 501,778
Depreciation on right-of-use assets	20,544	16,819	56,005	48,560
Depreciation on property and equipment	10,623	8,490	29,897	24,524
Cost of goods sold	\$ 353,952	\$ 243,181	\$ 886,216	\$ 574,862

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Personnel expenses				
Salaries, wages and employee benefits	\$ 130,416	\$ 87,553	\$ 344,428	\$ 221,615
Stock-based compensation expense (note 14)	11,558	9,109	21,212	20,406
Government payroll subsidies	—	—	—	(1,834)
Personnel expenses	\$ 141,974	\$ 96,662	\$ 365,640	\$ 240,187

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	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Finance expense				
Interest expense on lease liabilities (note 8)	\$ 7,207	\$ 5,624	\$ 18,528	\$ 16,867
Interest expense and banking fees	1,803	484	3,096	1,988
Amortization of deferred financing fees	46	52	138	255
Finance expense	\$ 9,056	\$ 6,160	\$ 21,762	\$ 19,110

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Other expense (income)				
Realized foreign exchange loss (gain)	\$ (7,591)	\$ (163)	\$ (9,602)	\$ 1,835
Unrealized foreign exchange loss (gain)	1,805	(989)	284	(3,197)
Fair value adjustment of non- controlling interest in exchangeable shares liability	—	2,000	—	2,000
Unrealized loss (gain) on equity derivative contracts (note 12)	(4,793)	(6,950)	(43)	(12,186)
Realized loss (gain) on equity derivative contracts (note 12)	(1,387)	—	(1,387)	—
Acquisition costs of CYC (note 1)	—	224	—	2,633
Secondary Offering costs (note 13)	518	—	518	530
Interest and other income	(546)	(340)	(1,738)	(1,138)
Other expense (income)	\$ (11,994)	\$ (6,218)	\$ (11,968)	\$ (9,523)

18 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week and 39-week periods ended November 27, 2022, is 26.6% (13-week and 39-week periods ended November 28, 2021 – 26.6%). The Company's effective income tax rate for the 13-week and 39-week periods ended November 27, 2022 is 28.1% and 28.3%, respectively (13-week and 39-week periods ended November 28, 2021 – 28.6% and 29.0%, respectively). The effective tax rates are driven largely by the proportionate amount of non-deductible stock-based compensation expense on equity settled plans relative to net income.

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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 together with the Founder, Executive Chair are 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:

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Canada	\$ 311,081	\$ 254,595	\$ 774,542	\$ 590,971
United States	313,534	198,728	783,506	459,337
Net revenue	\$ 624,615	\$ 453,323	\$ 1,558,048	\$ 1,050,308

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:

	November 27, 2022	February 27, 2022
Canada	\$ 597,616	\$ 534,419
United States	421,364	337,902
Non-current, non-financial assets	\$ 1,018,980	\$ 872,321

20 Commitments and contingencies

a) Product purchase obligations

At November 27, 2022, the Company had purchase obligations of \$186.3 million (February 27, 2022 - \$155.9 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 November 27, 2022, the Company had open letters of credit of \$54.6 million (February 27, 2022 - \$43.5 million).

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21 Related party transactions

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 13-week and 39-week periods ended November 27, 2022, the Company made payments of \$0.9 million and \$3.4 million, respectively (13-week and 39-week periods ended November 28, 2021 - \$1.2 million and \$3.6 million, respectively) for lease of premises and management services and \$0.7 million and \$1.3 million, respectively (13-week and 39-week periods ended November 28, 2021 - \$0.1 million and \$0.4 million, respectively) 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 November 27, 2022, \$0.6 million was included in accounts payable and accrued liabilities (February 27, 2022 - \$0.5 million). As at November 27, 2022, the outstanding balance of lease liabilities owed to these companies was \$29.8 million (February 27, 2022 - \$13.3 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:

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Salaries, directors' fees and short-term benefits	945	1,598	3,346	3,792
Stock-based compensation expense	4,038	3,212	6,272	7,453
Key management compensation	\$ 4,983	\$ 4,810	\$ 9,618	\$ 11,245

22 Supplemental cash flow information

Certain prior period amounts on the condensed interim consolidated statements of cash flows have been reclassified for consistency with current period presentation. These reclassifications have no effect on the reported results of operations. A reclassification has been made for proceeds from lease incentives from cash generated from operating activities to net cash used in financing activities.

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The net change in non-cash working capital balances for the 13-week and 39-week periods ended November 27, 2022 and November 28, 2021 were as follows:

	13-week periods ended		39-week periods ended	
	November 27, 2022	November 28, 2021	November 27, 2022	November 28, 2021
Accounts receivable	\$ (4,264)	\$ (2,058)	\$ (4,635)	\$ (4,143)
Inventory	(50,379)	3,813	(295,626)	2,277
Prepaid expenses and other current assets	(4,305)	(4,799)	(8,490)	(4,076)
Other assets	(294)	120	(415)	(1,914)
Accounts payable and accrued liabilities	21,360	64,278	119,178	71,199
Deferred revenue	34,397	26,842	35,330	29,763
Net change in non-cash working capital balances	\$ (3,485)	\$ 88,196	\$ (154,658)	\$ 93,106
Accrued purchases of property and equipment			\$ 15,609	\$ 10,043
Accrued purchases of intangible assets			\$ 322	\$ 226