

ARITZIA

Aritzia Inc.

Consolidated Financial Statements
February 26, 2023 and February 27, 2022
(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 26, 2023 and February 27, 2022, 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 26, 2023 and February 27, 2022;
- 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.

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

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



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 26, 2023. These matters were 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
Inventory <i>Refer to note 2 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 6 – Inventory to the consolidated financial statements.</i> As at February 26, 2023, the Company held inventory of \$467.6 million including finished goods in transit of \$60.5 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. We considered this a key audit matter due to the magnitude of the inventory balance and the audit effort involved in testing the inventory.	Our approach to addressing the matter included the following procedures, among others: • 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 a sample of distribution centres and for a sample of boutiques near year-end and performed independent test counts. • Tested, on a sample basis, the finished goods in transit as at year-end by agreeing to third party shipment documents, receipt of inventory 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 as at year-end. • Tested how management determined net realizable value, which included testing a sample of inventory items to the most recent retail prices of the inventory items.

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 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 Paulina Prokop.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 2, 2023

Aritzia Inc.
Consolidated Statements of Financial Position
As at February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars)

	Note	February 26, 2023	February 27, 2022
Assets			
Cash and cash equivalents		\$ 86,510	\$ 265,245
Accounts receivable		18,184	8,147
Income taxes recoverable		6,419	6,455
Inventory	6	467,634	208,125
Prepaid expenses and other current assets	13	33,101	33,564
Total current assets		\$ 611,848	\$ 521,536
Property and equipment	7	308,608	223,190
Intangible assets	8	86,382	87,398
Goodwill	8	198,846	198,846
Right-of-use assets	9	614,061	362,887
Other assets		3,830	4,271
Deferred tax assets	19	12,968	26,458
Total assets		\$ 1,836,543	\$ 1,424,586
Liabilities			
Accounts payable and accrued liabilities	10	\$ 221,712	\$ 179,344
Income taxes payable		—	58,917
Current portion of contingent consideration	13	6,619	6,619
Current portion of lease liabilities	9	117,316	86,724
Deferred revenue		71,653	55,721
Total current liabilities		\$ 417,300	\$ 387,325
Lease liabilities	9	654,690	417,067
Other non-current liabilities	11	21,499	22,359
Contingent consideration	13	—	6,618
Non-controlling interest in exchangeable shares liability	13	35,500	35,500
Deferred tax liabilities	19	21,767	24,906
Total liabilities		\$ 1,150,756	\$ 893,775
Shareholders' equity			
Share capital	14	\$ 265,519	\$ 251,291
Contributed surplus		68,682	56,342
Retained earnings		355,270	223,553
Accumulated other comprehensive loss		(3,684)	(375)
Total shareholders' equity		685,787	530,811
Total liabilities and shareholders' equity		\$ 1,836,543	\$ 1,424,586

Commitments and contingencies

21

Approved on behalf of 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 26, 2023 and February 27, 2022

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

	Note	February 26, 2023	February 27, 2022
Net revenue	17, 20	\$ 2,195,630	\$ 1,494,630
Cost of goods sold	18	1,281,638	839,678
Gross profit		913,992	654,952
Operating expenses			
Selling, general and administrative		602,469	392,802
Stock-based compensation expense	15, 18	24,369	26,131
Income from operations		287,154	236,019
Finance expense	9, 12, 18	31,263	25,202
Other expense (income)	13, 18	(7,916)	(8,783)
Income before income taxes		263,807	219,600
Income tax expense	19	76,219	62,683
Net income		\$ 187,588	\$ 156,917
Net income per share			
Basic	16	\$ 1.70	\$ 1.42
Diluted	16	\$ 1.63	\$ 1.36
Weighted average number of shares outstanding (thousands)			
Basic	16	110,259	110,401
Diluted	16	115,301	115,784

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

Aritzia Inc.

Consolidated Statements of Comprehensive Income

For the years ended February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars)

	February 26, 2023	February 27, 2022
Net income	\$ 187,588	\$ 156,917
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	(3,309)	(151)
Comprehensive income	\$ 184,279	\$ 156,766

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 26, 2023 and February 27, 2022

(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	—	—	—	—	—	156,917	—	156,917
Options exercised (note 15)	—	—	1,328,799	23,044	(11,571)	—	—	11,473
Stock-based compensation expense on equity-settled plans (note 15)	—	—	—	—	11,307	—	—	11,307
Share exchange at secondary offering (note 14)	(2,600,000)	(1,879)	2,600,000	1,879	—	—	—	—
Shares repurchased for cancellation (note 14)	—	—	(164,200)	(418)	—	(8,580)	—	(8,998)
Foreign currency translation adjustment	—	—	—	—	—	—	(151)	(151)
Balance, February 27, 2022	21,937,349	\$ 15,858	89,181,069	\$ 235,433	\$ 56,342	\$ 223,553	\$ (375)	\$ 530,811
Net Income	—	—	—	—	—	187,588	—	187,588
Options exercised (note 15)	—	—	943,772	18,513	(7,202)	—	—	11,311
Stock-based compensation expense on equity-settled plans (note 15)	—	—	—	—	19,542	—	—	19,542
Shares exchange at secondary offering (note 14)	(1,500,000)	(1,084)	1,500,000	1,084	—	—	—	—
Shares repurchased for cancellation (note 14)	—	—	(1,619,580)	(4,285)	—	(55,871)	—	(60,156)
Foreign currency translation adjustment	—	—	—	—	—	—	(3,309)	(3,309)
Balance, February 26, 2023	20,437,349	\$ 14,774	90,005,261	\$ 250,745	\$ 68,682	\$ 355,270	\$ (3,684)	\$ 685,787

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

Aritzia Inc.

Consolidated Statements of Cash Flows

For the years ended February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars)

	Note	February 26, 2023	February 27, 2022
Operating activities			
Net income for the period		\$ 187,588	\$ 156,917
Adjustments for:			
Depreciation and amortization	7,8	52,855	44,569
Depreciation on right-of-use assets	9	81,047	68,058
Finance expense	18	31,263	25,202
Stock-based compensation expense	15, 18	24,369	26,131
Unrealized loss (gain) on equity derivative contracts	13, 18	6,093	(11,192)
Income tax expense	19	76,219	62,683
Amortization of deferred lease inducements		(1,070)	(1,056)
Fair value adjustment for inventory acquired in CYC Design Corporation		—	1,902
Fair value adjustment of non-controlling interest in exchangeable shares liability	18	—	2,000
Rent concessions relating to lease liabilities	9	—	(3,800)
Cash generated before non-cash working capital balances and interest and income taxes		458,364	371,414
Net change in non-cash working capital	23	(228,956)	18,723
Cash generated before interest and income taxes		229,408	390,137
Interest paid		(3,743)	(2,491)
Interest paid on lease liabilities	9	(27,336)	(23,128)
Income taxes paid		(123,416)	(26,165)
Net cash generated from operating activities		74,913	338,353
Financing activities			
Payment of financing fees	12	—	(651)
Repayment of principal on lease liabilities	9	(86,262)	(66,300)
Proceeds from lease incentives		13,538	14,414
Proceeds from options exercised	15	11,311	11,473
Shares repurchased for cancellation	14	(61,124)	(8,029)
Repayment of long-term debt	12	—	(75,000)
Net cash used in financing activities		(122,537)	(124,093)
Investing activities			
Purchase of property and equipment	7	(122,767)	(65,427)
Purchase of intangible assets	8	(2,821)	(1,594)
Acquisition of CYC Design Corporation, net of cash acquired	5	—	(32,555)
Contingent consideration payout, net relating to the acquisition of CYC Design Corporation	13	(5,625)	—
Cash used in investing activities		(131,213)	(99,576)
Effect of exchange rate changes on cash and cash equivalents		102	1,414
Change in cash and cash equivalents		(178,735)	116,098
Cash and cash equivalents – Beginning of year		265,245	149,147
Cash and cash equivalents – End of year		\$ 86,510	\$ 265,245

Supplemental cash flow information

23

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

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(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 (note 5). 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 (“TSX”) 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, non-controlling interest in exchangeable shares liability, 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.

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 2023 and 2022 represent the fiscal years ended February 26, 2023 and February 27, 2022.

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 2, 2023 by the Company’s Board of Directors (“Board”).

COVID-19 Pandemic

While there were no in-store capacity restrictions or closures due to COVID-19 that directly impacted the Company during Fiscal 2023, the trailing effects of the pandemic and related macroeconomic conditions remain uncertain. Management continues to monitor and assess the impacts of the COVID-19 pandemic and related macroeconomic conditions on the business as well as on certain estimates and judgments.

2 Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, including Aritzia LP and CYC Design Corporation, 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.

Business combinations

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. The Company assesses whether the set of assets acquired includes an input and substantive process and whether the acquired set of assets has the ability to produce outputs.

The consideration transferred (including cash and contingent consideration) in the acquisition is measured at fair value, as are the identifiable net assets acquired at the date of the acquisition. The fair value of the purchase consideration is allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed.

Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit and loss.

Goodwill is measured at cost, being the difference between the acquisition date fair value of consideration transferred, including the recognized amount of any non-controlling interest in the acquiree over the net fair value amount of the identifiable assets acquired and the liabilities assumed, all measured as at the acquisition date.

The fair values of inventories acquired in a business combination are determined based on the estimated selling price in the ordinary course of business less the estimated costs of sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

The fair values of property and equipment acquired in a business combination are based on either the cost approach or market approach, as applicable. Under the cost approach, the current replacement cost or reproduction cost for each major asset is calculated. Under the market approach, the market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each act knowledgeably and willingly.

The fair values of brands acquired in a business combination are determined using a relief from royalty method using a discounted cash flow model. The fair value of off-market leases acquired in a business combination is determined based on the present value of the difference between market rates and rates in the existing leases. The fair values of non-compete agreements acquired in a business combination are determined using a with-and-without approach based on the difference between two discounted cash flow models and consideration for likelihood of competition.

The purchase price allocation may be provisional during a measurement period of up to one year to provide reasonable time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed. Measurement period adjustments are recognized in the period in which the adjustment amount is determined and adjustments to fair values and allocations are retrospectively adjusted.

Transaction costs associated with the acquisition are expensed as incurred.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Non-controlling interest in exchangeable shares liability

Non-controlling interest in exchangeable shares liability represents exchangeable shares that can be put back to the Company's subsidiary at the option of the holder and are measured initially at its fair value at the date of acquisition. Subsequent changes in the fair value are recognized in in profit and loss. The portion of change in fair value attributable to changes in the Company's own credit risk is recognized in other comprehensive income.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars. 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. The functional currency of the parent corporation and its Canadian operations is the Canadian dollar. The functional currency of the Company's U.S. operations is the U.S. dollar.

Foreign currency translation

Transactions denoted in foreign currencies are translated into the functional currency for the respective entity at the exchange rates at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date exchange rates, are recognized in profit or loss. Other non-monetary items on the consolidated statement of financial position denominated in foreign currencies are translated into the functional currencies using the exchange rates at the date of the transaction.

The Company's U.S. operations with a functional currency of U.S. dollars are translated into Canadian dollars at each reporting date. Assets and liabilities 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 translation adjustments 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 26, 2023 and February 27, 2022, the Company had no investments held in money market instruments classified as cash equivalents.

Prepaid expenses and other current assets

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

Inventory

Inventory, consisting of finished goods and raw materials, 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 any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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. Costs and related accumulated depreciation for property and equipment are removed from the accounts upon their sale or disposition and the resulting gain or loss is reflected in the results of operations.

Depreciation is recognized 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 - 7 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 and internally developed computer software.

Costs to purchase any trademarks from third parties are capitalized and amortized over the useful lives of the assets. Costs include 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 and Reigning Champ trade names have been determined to have an indefinite life and are 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
Non-compete agreements	5 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.

Impairment of non-financial assets

General

Impairment testing compares the carrying values of the assets or cash-generating units ("CGU") being tested with their recoverable amounts (the recoverable amount being the greater of an asset's or CGUs value in use or fair value less costs of disposal). To the extent that the carrying value of an asset or CGU exceeds its recoverable amount, the excess amount would be recorded as an impairment loss. Should the recoverable amounts for impaired assets or CGUs subsequently increase, the impairment losses previously recognized (other than in respect of goodwill) may be reversed.

Property, plant and equipment, intangible assets, and right-of-use assets with finite lives

Assets that are subject to depreciation or amortization are periodically reviewed for indicators of impairment. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, the asset or CGU is tested for impairment.

Goodwill and intangible assets with indefinite lives

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. The Company has selected the first day of the fourth quarter as the time of the annual impairment test.

The fair value methodologies used by the Company in testing goodwill and indefinite-lived intangible assets include assumptions related to sales trends, discount rates, royalty rates and other assumptions that are judgmental in nature. If future economic conditions or operating performance, such as declines in sales or increases in discount rates, are different than those projected by management in its most recent impairment tests for goodwill and indefinite-lived intangible assets, future impairment charges may be required. See Note 8 for further details.

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 made 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. Proceeds from lease incentives are recognized as financing cash flows in the consolidated statement of cash flows.

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 boutique 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, lease liabilities and long term debt, are classified as amortized cost. The Company's equity derivative contracts, contingent consideration and non-controlling interest in exchangeable shares liability 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 26, 2023 and February 27, 2022

(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.

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 share capital. The excess of the purchase price over the carrying amount of the shares is charged to retained earnings.

Revenue recognition

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

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

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Cost of goods sold

Cost of goods sold includes inventory and product-related costs, occupancy costs, and depreciation expense for the Company's boutiques 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 through cost of goods sold or selling, general and administrative expenses as the related service is provided.

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

Income tax expense

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

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

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

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

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

Stock-based compensation expense

General

For stock-based compensation which vests in its entirety at one future point in time (cliff-vesting), the Company recognizes the expense on a straight-line basis over the vesting period. For stock-based compensation which vests in tranches, the Company recognizes the expense using the graded vesting method. An estimate of forfeitures during the vesting period is made at the date of grant, which is adjusted to reflect actual forfeitures. For stock-based compensation that is subject to performance criteria, it is earned only if certain performance targets are achieved, as established by the Board, along with any other vesting conditions over the vesting period and can decrease or increase if minimum or maximum performance targets are achieved.

Equity-settled plans

Stock option expense is initially recognized based on the fair value of the option at the grant date using the Black-Scholes option-pricing model, with a corresponding increase in contributed surplus. When stock options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are reclassified to share capital.

Compensation expense related to other equity-settled plans is measured based on an estimated fair value at the grant date, with a corresponding increase in contributed surplus. Upon settlement, the amount initially recognized in contributed surplus is reclassified to share capital.

Cash-settled plans

Compensation expense related to cash-settled plans is measured based on the market value of the Company's shares at grant date, with a corresponding liability. The liability is subsequently 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 over the vesting period.

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 stock options granted, as calculated under the treasury stock method, and the dilutive impact of equity-settled restricted and performance share units granted and the non-controlling interest in exchangeable shares liability.

3 Accounting policy developments

Standards, interpretations and amendments not yet effective and not yet applied

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

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current, which amends IAS 1 – Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 with earlier application permitted. 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 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 are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. 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 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 effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. 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 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 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. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The amendments clarify that companies are required to recognize deferred taxes on transactions where both assets and liabilities are recognized, such as with leases and asset retirement (decommissioning) obligations. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The Company is currently assessing the potential impact of these amendments.

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:

(in thousands of Canadian dollars, unless otherwise noted)

- Return allowances, which requires the Company to utilize estimates of the return rate of merchandise based on historical return patterns.
- The provision recorded to remeasure inventories based on the lower of cost and net realizable value (note 6), which requires the Company to utilize estimates related to product quality, damages, future demand, selling prices, and market conditions. The Company records a write-down if the cost exceeds net realizable value of inventory, based on the above factors.
- Goodwill and indefinite life intangible asset impairment testing, which requires management to make 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 estimates regarding future events, specifically future cash flows, growth rates and discount rates (note 8). The Company uses judgment in determining the grouping of assets to identify its CGUs for purposes of testing for impairment. In testing for impairment, goodwill acquired in a business combination is allocated to the group of CGUs that are expected to benefit from the synergies of the business combination, which involves judgment.
- Incremental borrowing rate used for calculating lease liabilities and right-of-use-assets. The Company estimates 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 9).
- Lease terms, which requires judgment 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 9). The Company considers all facts and circumstances that create an economic incentive to exercise a renewal or termination option.
- The Company uses judgment in applying the acquisition method of accounting for business combinations and estimates to value identifiable assets and liabilities at the acquisition date. The Company may engage independent third parties to determine the fair value of inventory, property and equipment and intangible assets. Assumptions and estimates are used to determine cash flow projections, including the period of future benefit, future growth and discount rates, among other factors. The values placed on the acquired assets and liabilities assumed affect the amount of goodwill recorded on an acquisition (note 5).
- Non-controlling interest in exchangeable shares liability involves uncertainty in estimating the fair value of the obligation on a recurring basis. The fair value estimate includes inputs associated with estimated future operating results, expected volatility, anticipated timing and discount rate associated with the obligation (note 13).

5 Acquisition of CYC Design Corporation

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.

Total aggregate consideration for the acquisition of the 75% of the common shares was \$46.1 million which consisted of cash consideration of \$32.9 million and future cash consideration (the "contingent consideration"). The contingent consideration is based on the future operating results of CYC during the measurement period ending January 31, 2023, and payable in two installments in May 2022 and May 2023. As at the date of acquisition, the Company recorded a contingent consideration liability of \$13.2 million and was based on its expected outcome at the end of the earn out period (note 13).

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

As part of the acquisition, the remaining shareholders of CYC exchanged their common shares for exchangeable shares. The exchangeable shares can be put back to CYC at specified future dates in May to August in each of 2024, 2025 and 2026, for a formula-based amount dependent on the future performance of CYC in exchange for shares of the Company, resulting in a liability (note 13). The Company also has the ability to call the exchangeable shares in August 2026. The formula-based amount is subject to a capped enterprise value of CYC. As the exchangeable shares are a liability, the Company has treated the acquisition as an acquisition of a 100% interest in the entity, with the non-controlling interest in exchangeable shares liability included in the fair value of the acquired assets and liabilities.

The acquisition date fair values are as follows:

	As at June 25, 2021
Fair value of consideration	
Cash paid	\$ 32,878
Contingent consideration (note 13)	13,237
	\$ 46,115
Assets acquired	
Cash	\$ 323
Accounts receivable	1,244
Inventory	8,600
Prepaid expenses and other current assets	303
Property and equipment	2,670
Intangible assets:	
Brand	26,200
Non-compete agreements	1,200
Goodwill	47,164
Right-of-use assets	8,264
	\$ 95,968
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 1,170
Income taxes payable	1,081
Deferred revenue	208
Lease liabilities	6,264
Deferred tax liabilities	7,630
	\$ 16,353
Net assets acquired	\$ 79,615
Non-controlling interest in exchangeable shares liability (note 13)	(33,500)
	\$ 46,115

Goodwill is attributable to the expected synergies to be achieved from integrating CYC into the Company's existing business and is grouped with the Company's existing goodwill, based on the expected future benefits to be derived. Goodwill is non-deductible for tax purposes.

For the period from the date of acquisition to February 27, 2022, CYC contributed revenue of \$17.1 million and net income of \$0.4 million. If the acquisition had occurred on March 1, 2021, management estimates that CYC's

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

revenue would have been \$25.3 million and net income would have been \$0.8 million for the year ended February 27, 2022.

In connection with the acquisition, during the year ended February 27, 2022, the Company recognized \$2.6 million in acquisition-related costs which were expensed as incurred. These costs are included in other expense (income) and include transaction costs such as fees for advisory and professional services.

6 Inventory

	February 26, 2023	February 27, 2022
Finished goods	\$ 397,629	\$ 131,954
Finished goods-in-transit	60,527	69,656
Raw materials	9,478	6,515
Inventory	\$ 467,634	\$ 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 \$5.2 million for the year ended February 26, 2023 (February 27, 2022 - \$8.3 million). 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 12).

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 year ended February 27, 2022, the Company recognized \$1.9 million relating to the purchase price fair value adjustment included in cost of goods sold for inventory sold.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

7 Property and equipment

	Leasehold improvements	Furniture and equipment	Computer hardware and software	Construction in- progress	Total
Cost					
Balance, February 28, 2021	\$ 253,076	\$ 60,510	\$ 25,164	\$ 11,565	\$ 350,315
Additions	38,091	10,185	4,832	18,443	71,551
Additions related to CYC acquisition	2,083	500	87	—	2,670
Transfers from construction-in-progress	9,898	1,267	169	(11,334)	—
Dispositions	(7,481)	(2,734)	(1,028)	—	(11,243)
Foreign exchange	535	103	17	46	701
Balance, February 27, 2022	\$ 296,202	\$ 69,831	\$ 29,241	\$ 18,720	\$ 413,994
Additions	62,605	14,689	6,061	44,067	127,422
Transfers from construction-in-progress	11,789	3,171	228	(15,188)	—
Dispositions	(5,105)	(2,282)	(2,510)	—	(9,897)
Foreign exchange	9,613	1,843	322	758	12,536
Balance, February 26, 2023	\$ 375,104	\$ 87,252	\$ 33,342	\$ 48,357	\$ 544,055
Accumulated depreciation					
Balance, February 28, 2021	\$ 111,459	\$ 30,669	\$ 18,619	\$ —	\$ 160,747
Depreciation	27,982	8,406	4,366	—	40,754
Dispositions	(7,481)	(2,734)	(1,028)	—	(11,243)
Foreign exchange	418	103	25	—	546
Balance, February 27, 2022	\$ 132,378	\$ 36,444	\$ 21,982	\$ —	\$ 190,804
Depreciation	34,902	9,540	4,546	—	48,988
Dispositions	(5,105)	(2,282)	(2,510)	—	(9,897)
Foreign exchange	4,421	867	264	—	5,552
Balance, February 26, 2023	\$ 166,596	\$ 44,569	\$ 24,282	\$ —	\$ 235,447
Net carrying value					
Balance, February 27, 2022	\$ 163,824	\$ 33,387	\$ 7,259	\$ 18,720	\$ 223,190
Balance, February 26, 2023	\$ 208,508	\$ 42,683	\$ 9,060	\$ 48,357	\$ 308,608

Construction-in-progress primarily includes build costs for boutiques not yet opened and distribution center and support office projects not put into use.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

8 Goodwill and intangible assets

		Indefinite life trade names	Definite life trade names and trademarks	Computer software	Non-compete agreements	Construction- in- progress	Total Intangible assets	Goodwill
Cost								
Balance, February 28, 2021	\$	46,092	\$ 19,184	\$ 35,322	\$ —	\$ —	\$ 100,598	\$ 151,682
Additions		—	—	90	—	1,674	1,764	—
Additions related to CYC acquisition (note 5)		26,200	—	—	1,200	—	27,400	47,164
Dispositions		—	—	(56)	—	—	(56)	—
Balance, February 27, 2022	\$	72,292	\$ 19,184	\$ 35,356	\$ 1,200	\$ 1,674	\$ 129,706	\$ 198,846
Additions		—	—	—	—	2,851	2,851	—
Balance, February 26, 2023	\$	72,292	\$ 19,184	\$ 35,356	\$ 1,200	\$ 4,525	\$ 132,557	\$ 198,846
Accumulated amortization								
Balance, February 28, 2021	\$	—	\$ 13,941	\$ 24,608	\$ —	\$ —	\$ 38,549	\$ —
Amortization		—	684	2,971	160	—	3,815	—
Dispositions		—	—	(56)	—	—	(56)	—
Balance, February 27, 2022	\$	—	\$ 14,625	\$ 27,523	\$ 160	\$ —	\$ 42,308	\$ —
Amortization		—	692	2,935	240	—	3,867	—
Balance, February 26, 2023	\$	—	\$ 15,317	\$ 30,458	\$ 400	\$ —	\$ 46,175	\$ —
Net carrying value								
Balance, February 27, 2022	\$	72,292	\$ 4,559	\$ 7,833	\$ 1,040	\$ 1,674	\$ 87,398	\$ 198,846
Balance, February 26, 2023	\$	72,292	\$ 3,867	\$ 4,898	\$ 800	\$ 4,525	\$ 86,382	\$ 198,846

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

Business combination

On June 25, 2021, the Company acquired 75% of the common shares in CYC Design Corporation, a leading designer and manufacturer of premium athletic wear. The acquisition transaction was treated as a business combination which resulted in \$47.2 million recognized as goodwill and \$26.2 million allocated to the CYC brand name, known as Reigning Champ (note 5). Management has grouped goodwill that arose on the CYC acquisition with the existing goodwill, based on the expected future benefits to be derived.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill is monitored corporately at the level of the Company's single operating segment. The recoverable amount of goodwill is based on value in use, calculated using discounted cash flows over five years with a terminal value generated from continuing use of the group of CGUs. Specific cash flow estimates are projected based on approved financial forecasts, expected annual growth assumptions and a terminal growth rate to extrapolate the cash flow projections. A pre-tax discount rate of 9.6% and a terminal growth assumption rate of 2.0% were used in the impairment model.

The Company's indefinite life trade names include Aritzia and Reigning Champ. As there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows, these intangible assets are considered to have indefinite useful lives. For the purposes of intangible assets with indefinite useful lives, CGUs are grouped at the lowest level that the assets are monitored for internal management purposes and for

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

which largely independent cash flows are generated. The carrying values allocated to the CGUs' intangible assets with indefinite useful lives are set out in the following table:

	February 26, 2023	February 27, 2022
Aritzia trade name	\$ 46,092	\$ 46,092
Reigning Champ trade name	26,200	26,200
Indefinite life trade names	\$ 72,292	\$ 72,292

The recoverable amount of the indefinite life trade names is determined based on the relief from royalty method, calculated using discounted cash flows over five years with a terminal value generated from continuing use of the group of CGUs. The method considers the projected royalties that would otherwise be paid to the holder of the trade name, assuming an arm's length owner.

Specific cash flow estimates for the trade names are projected based on approved financial forecasts, annual growth assumptions, royalty rates, discount rates and a terminal growth rate to extrapolate the cash flow projections. A pre-tax discount rate of 9.6% and 19.3% for each of the Aritzia and Reigning Champ trade names, respectively, and a terminal growth assumption rate of 2.0% (based on the Bank of Canada's target inflation rate) were used in the impairment models for each trade name.

As at February 26, 2023 and February 27, 2022, management has determined that there was no impairment of goodwill or the indefinite life trade names. The Company believes that any reasonably possible change in the key assumptions on which the calculation of the recoverable amount of the CGUs is based would not cause the CGUs carrying values to exceed their recoverable amounts.

9 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.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

The following table reconciles the change in right-of-use assets for the year ended February 26, 2023:

	Right-of-use assets
Cost	
Balance, February 27, 2022	\$ 549,778
Additions, net of lease incentives received	261,907
Modifications	41,975
Foreign exchange	24,933
Balance, February 26, 2023	\$ 878,593
Accumulated depreciation	
Balance, February 27, 2022	\$ 186,891
Depreciation	80,515
Amortization of fair value adjustment on CYC leases	532
Modifications	(12,367)
Foreign exchange	8,961
Balance, February 26, 2023	\$ 264,532
Net carrying value	
Balance, February 27, 2022	\$ 362,887
Balance, February 26, 2023	\$ 614,061

The following table reconciles the change in lease liabilities for the year ended February 26, 2023:

	Lease liabilities
Balance, February 27, 2022	\$ 503,791
Additions	279,492
Interest expense on lease liabilities (note 18)	27,336
Repayment of interest and principal on lease liabilities	(113,598)
Modifications	52,916
Foreign exchange	22,069
Balance, February 26, 2023	\$ 772,006
Current portion of lease liabilities	117,316
Long-term portion of lease liabilities	654,690
Lease liabilities	\$ 772,006

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

The following table summarizes the Company's rent and rent-related expenses for the year ended February 26, 2023:

	February 26, 2023	February 27, 2022
Depreciation on right-of-use assets, excluding fair value adjustments	\$ 80,515	\$ 67,702
Interest expense on lease liabilities (note 18)	27,336	22,346
Variable lease expense	26,370	14,439
Common area maintenance, property taxes and other	41,336	37,010
Lease payments relating to short-term or low value leases	2,670	1,656
Total rent and rent-related expenses	\$ 178,227	\$ 143,153

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	\$ 152,520
Between 1 and 5 years	443,102
More than 5 years	376,490
Future undiscounted minimum lease payments	\$ 972,112

As at February 26, 2023, the Company had future undiscounted minimum lease payments of \$146.1 million for leases committed to but not yet commenced (February 27, 2022 - \$122.6 million).

10 Accounts payable and accrued liabilities

	February 26, 2023	February 27, 2022
Trade accounts payable	\$ 149,422	\$ 124,506
Employee benefits payable	44,205	38,494
Other non-trade payables	22,351	12,469
Current portion of Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plan liabilities (note 15)	5,734	3,875
Accounts payable and accrued liabilities	\$ 221,712	\$ 179,344

11 Other non-current liabilities

	February 26, 2023	February 27, 2022
RSU and DSU plan liabilities (note 15)	\$ 14,914	\$ 15,736
Deferred lease inducements	6,174	6,250
Asset retirement obligations	411	373
Other non-current liabilities	\$ 21,499	\$ 22,359

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

12 Bank indebtedness

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 banker's acceptance rate ("BA"), London Inter-Bank Offered Rate ("LIBO") or Canadian prime rate, 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 February 26, 2023 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 (February 27, 2022 - CAD\$75.0 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 February 26, 2023, the amount available under these facilities was reduced to \$72.9 million (February 27, 2022 - \$31.5 million) by certain open letters of credit (note 21).

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 February 26, 2023 and February 27, 2022, the Company was in compliance with all financial covenants.

13 Financial instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy and accounting classification:

	Classification	Fair Value Level	As at February 26, 2023		As at February 27, 2022	
			Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets						
Cash and cash equivalents	Amortized cost	1	\$ 86,510	\$ 86,510	\$ 265,245	\$ 265,245
Accounts receivable	Amortized cost	2	18,184	18,184	8,147	8,147
Equity derivative contracts	FVTPL	2	9,468	9,468	15,561	15,561
Financial liabilities						
Accounts payable and accrued liabilities	Amortized cost	2	\$ 221,712	\$ 221,712	\$ 179,344	\$ 179,344
Lease liabilities	Amortized cost	2	772,006	772,006	503,791	503,791
Contingent consideration	FVTPL	3	6,619	6,619	13,237	13,237
Non-controlling interest in exchangeable shares liability	FVTPL	3	35,500	\$ 35,500	35,500	35,500

There were no transfers between the levels of the fair value of hierarchy for the years ended February 26, 2023 and February 27, 2022.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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.

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 year ended February 26, 2023, the Company recorded an unrealized loss of \$6.1 million (February 27, 2022 - unrealized gain of \$11.2 million) for the change in fair value for these contracts in the consolidated statements of operations in other expense (income). During the year ended February 26, 2023, the Company recorded realized gains of \$1.4 million (February 27, 2022 - \$nil) arising from the settlement of equity derivative contracts. As at February 26, 2023, the equity derivative contracts had a positive fair value of \$9.5 million (February 27, 2022 - \$15.6 million) which is recorded in prepaid expenses and other current assets in the 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 ended 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 year ended February 26, 2023, the first installment was paid to CYC net of \$1.0 million in indemnities and shared costs pursuant to the purchase agreement. During the year ended February 26, 2023, there was no change in fair value of the remaining contingent consideration given the targets set out in calculating the contingent consideration were already met during the pre-defined measurement period.

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.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

The fair value of the non-controlling interest in exchangeable shares liability was estimated for the year ended February 26, 2023 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

A 1.0% increase (decrease) in the gross profit discount rate would result in a \$1.0 million decrease and \$0.5 million increase, respectively in the amount of the non-controlling interest in exchangeable shares liability.

A 5.0% increase (decrease) in gross profit would result in a \$1.0 million increase and \$1.5 million decrease, respectively, in the amount of the non-controlling interest in exchangeable shares liability.

As at the acquisition date of CYC on June 25, 2021, the fair value of the non-controlling interest in exchangeable shares liability was \$33.5 million. During year ended February 26, 2023, there was no change in the fair value recorded for the non-controlling interest in exchangeable shares liability (February 27, 2022 - \$2.0 million recorded in other expense (income)).

14 Share capital

Secondary offerings

From time to time, the Company will announce a 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 Company does not receive any proceeds from the secondary offerings. Underwriting fees are paid by the Selling Shareholders and other expenses related to the secondary offerings are paid by the Company.

On November 14, 2022, the Company announced a secondary offering (the "2022 Secondary Offering"). As part of the 2022 Secondary Offering, during the year ended February 26, 2023, the Selling Shareholders exchanged 1,500,000 of their multiple voting shares for subordinate voting shares. On May 13, 2021, the Company announced a secondary offering ("2021 Secondary Offering"). As part of the 2021 Secondary Offering, during the year ended February 27, 2022, the Selling Shareholders exchanged 2,600,000 of their multiple voting shares for subordinate voting shares. Details relating to the 2022 and 2021 Secondary Offerings are summarized in the following table:

	2022 Secondary Offering	2021 Secondary Offering
Completion date	November 30, 2022	June 1, 2021
Number of subordinate voting shares	1,500,000	3,040,700
Price per subordinate voting share	\$ 51.60	\$ 30.00
Gross proceeds to the Selling Shareholders	\$ 77,400	\$ 91,221
Other expenses paid by the Company	\$ 518	\$ 530

Normal course issuer bids ("NCIB") and automatic share purchase plans ("ASPP")

From time to time, the Company will announce a NCIB approved by the Board and the TSX to repurchase and cancel a specified number of subordinate voting shares. All repurchases are made through the facilities of the Toronto Stock Exchange at market prices. Amounts paid above the average book value of the subordinate voting shares is charged to retained earnings. In connection with an NCIB, the Company may enter into an 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 in accordance with the rules of the TSX, applicable securities laws and the terms of the ASPP. All purchases made under an ASPP will be included in computing the number of subordinate voting shares purchased under an NCIB.

On January 18, 2023, the Company announced that the TSX had accepted our notice of intention to proceed with a normal course issuer bid (the "2023 NCIB") to repurchase and cancel up to 3,860,745 of its subordinate voting shares, representing approximately 5% of the public float of 77,214,916 subordinate voting shares, over the 12-month period commencing January 20, 2023 and ending January 19, 2024. On February 3, 2023, the Company subsequently entered into an ASPP (the "2023 ASPP") which commenced immediately and terminates when the 2023 NCIB expires, unless terminated earlier in accordance with the terms of the 2023 ASPP. During the year ended February 26, 2023, the Company did not repurchase any shares for cancellation under the 2023 NCIB.

On January 12, 2022, the Company announced that the TSX had accepted our notice of intention to proceed with a NCIB (the "2022 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 which commenced January 17, 2022 and ended January 16, 2023. On May 18, 2022, the Company entered into an ASPP (the "2022 ASPP"). With the announcement of the 2022 Secondary Offering, the 2022 ASPP was automatically terminated pursuant to its terms. During the year ended February 26, 2023, 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 (February 27, 2022 - 164,200 subordinate voting shares at an average price of \$54.79). As at February 26, 2023, \$nil (February 27, 2022, \$1.0 million) of cash consideration related to subordinate voting share repurchases was recorded in accounts payable and accrued liabilities.

As at February 26, 2023, there were 20,437,349 multiple voting shares and 90,005,261 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at February 26, 2023. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

15 Stock-based compensation

Details of stock-based compensation expense

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 had granted stock options to directors, employees, consultants and advisors. Concurrent with the IPO, the Company implemented a long-term incentive plan (the "Omnibus plan") for certain officers, directors, employees or consultants. The Omnibus plan includes stock options, Restricted Share Units and Performance Share Units ("PSUs"). The Company also has a Deferred Share Unit plan for non-employee directors.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Details of the Company's Omnibus plan are included in the following table:

Unit type	Vesting	Settled in cash or equity
Stock Options	Five-year graded vesting	Equity
Deferred Share Unit	Immediately at time of grant	Cash (not redeemable until the eligible director ceases to be a member of the Board)
Restricted Share Unit	Third anniversary of award date	Cash, equity or combination at the discretion of the Board on the grant date
Performance Share Unit	Third anniversary of award date	Cash, equity or combination at the discretion of the Board on the grant date

RSUs granted through February 27, 2022 represent cash-settled awards. Effective February 28, 2022, RSUs granted represent equity-settled awards. PSUs granted through February 26, 2023 represent equity-settled awards subject to performance targets.

Reflected in the consolidated statements of operations as stock-based compensation expense are the following amounts:

	February 26, 2023	February 27, 2022
Equity-settled plans		
Stock options	\$ 14,467	\$ 10,171
Restricted Share Units	2,666	—
Performance Share Units	2,409	1,136
Cash-settled plans		
Restricted Share Units	4,742	10,866
Deferred Share Units	85	3,958
Stock-based compensation expense	\$ 24,369	\$ 26,131

Stock-based compensation expense in relation to the options under the Legacy Plan for the year ended February 26, 2023 was \$nil (year ended February 27, 2022 – nominal) as the options have been fully vested and expensed.

Stock Options

Legacy Plan

Following completion of the IPO in October 2016, no additional options will be granted under the Legacy Plan. All issued options expire after 10 or 15 years from the date granted.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Transactions for options granted under the Legacy Plan for the years ended on February 26, 2023 and February 27, 2022 were as follows:

	February 26, 2023		February 27, 2022	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	2,213,883	5.35	3,059,324	\$ 5.13
Exercised	(367,253)	4.68	(845,441)	4.56
Outstanding, at end of year	1,846,630	5.48	2,213,883	\$ 5.35
Exercisable, at end of year	1,846,630	5.48	2,213,883	\$ 5.35

The weighted average share price on the dates the stock options were exercised during the year ended February 26, 2023 was \$49.22 (February 27, 2022 - \$45.81).

The Company's outstanding and exercisable stock option weighted average remaining contractual life and weighted average exercise price under the Legacy Plan as at February 26, 2023 is as follows:

Range of exercise prices	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$3.15 to \$4.96	654,507	1.78	4.21	654,507	1.78	4.21
\$4.97 to \$6.44	534,949	2.41	5.46	534,949	2.41	5.46
\$6.45 to \$7.09	657,174	3.10	6.76	657,174	3.10	6.76
	1,846,630	2.43	5.48	1,846,630	2.43	5.48

Omnibus Plan

All issued options expire after 7 or 10 years from the date granted.

Transactions for options granted under the Omnibus Plan for the years ended February 26, 2023 and February 27, 2022 were as follows:

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

	February 26, 2023		February 27, 2022	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	6,380,499	\$ 21.16	5,208,278	\$ 16.12
Granted	1,743,661	36.58	1,777,158	35.21
Exercised	(576,343)	16.65	(483,534)	15.76
Forfeited	(211,725)	30.42	(121,403)	31.84
Outstanding, at end of year	7,336,092	\$ 24.92	6,380,499	\$ 21.16
Exercisable, at end of year	3,473,844	\$ 17.15	2,980,285	\$ 15.37

The weighted average share price on the dates the stock options were exercised during the year ended February 26, 2023 was \$49.85 (February 27, 2022 - \$50.58).

Information relating to stock options outstanding under the Omnibus Plan and exercisable as at February 26, 2023 is as follows:

Range of exercise prices	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$12.99 to \$16.81	2,569,072	1.44	\$ 14.64	2,522,066	1.43	\$ 14.64
\$16.82 to \$33.07	2,677,967	5.95	\$ 24.10	875,282	5.12	\$ 21.75
\$33.08 to \$59.75	2,089,053	9.25	\$ 38.61	76,496	8.63	\$ 47.15
	7,336,092	5.31	\$ 24.92	3,473,844	2.52	\$ 17.15

The weighted average fair value of stock options estimated at the grant date for the year ended February 26, 2023 was \$15.24 (February 27, 2022 - \$12.86), based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	39.5% to 42.4%
Risk-free interest rate	2.8% to 3.6%
Expected life	5.0 to 7.0 years
Exercise price	\$35.98 to \$49.31

The expected volatility reflects the historical volatility in the price of the Company's shares over the expected life.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Director Deferred Share Unit Plan

The following table summarizes information related to DSUs for the years ended February 26, 2023 and February 27, 2022:

	February 26, 2023	February 27, 2022
Number of units		
Outstanding, at beginning of year	153,826	153,111
Granted	28,985	26,339
Settled in cash	—	(25,624)
Outstanding, at end of year	182,811	153,826
Vested, at end of year	182,811	153,826
Additional information		
Fair value of DSU liability	7,665	7,581

The weighted average fair value of the grant price for the year ended February 26, 2023 was \$42.91 (February 27, 2022 - \$40.21).

Restricted Share Unit Plan

The following table summarizes information related to RSUs for the years ended February 26, 2023 and February 27, 2022:

	February 26, 2023		February 27, 2022	
	Cash-settled	Equity-settled	Cash-settled	Equity-settled
Number of units				
Outstanding, at beginning of year	652,846	—	349,046	—
Granted	—	371,835	364,324	—
Settled	(95,876)	—	(37,247)	—
Forfeited	(60,749)	(11,247)	(23,277)	—
Outstanding, at end of year	496,221	360,588	652,846	—
Additional information				
Fair value of RSU liability	12,983	—	12,011	—

The weighted average fair value of the grant price for the year ended February 26, 2023 was \$36.86 (equity-settled) (February 27, 2022 - \$36.96 (cash-settled)).

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Performance Share Unit Plan

The following table summarizes information related to PSUs for the years ended February 26, 2023 and February 27, 2022:

	February 26, 2023	February 27, 2022
Number of units		
Outstanding, at beginning of year	96,836	—
Granted	104,224	96,836
Outstanding, at end of year	201,060	96,836
Unvested earned PSUs, at end of year	129,114	—

The weighted average fair value of the grant price for the year ended February 26, 2023 was \$35.98 (February 27, 2022 - \$36.94).

16 Net income per share

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 26, 2023	February 27, 2022
Net income attributable to shareholders of the Company	\$ 187,588	\$ 156,917
Weighted average number of shares outstanding during the year (thousands)	110,259	110,401
Basic net income per share	\$ 1.70	\$ 1.42

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.

	February 26, 2023	February 27, 2022
Net income attributable to shareholders of the Company	\$ 187,588	\$ 156,917
Weighted average number of shares for net income per diluted share (thousands)	115,301	115,784
Net income per diluted share	\$ 1.63	\$ 1.36

For the year ended February 26, 2023, 1,928,728 stock options and equity-settled RSUs, 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 (February 27, 2022 – 737,577 stock options).

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

17 Net Revenue

Net revenue disaggregated for boutiques and eCommerce was as follows:

	February 26, 2023	February 27, 2022
Retail net revenue	\$ 1,425,779	\$ 930,290
eCommerce net revenue	769,851	564,340
Net revenue	\$ 2,195,630	\$ 1,494,630

18 Expenses by nature

	February 26, 2023	February 27, 2022
Cost of goods sold		
Inventory and product-related costs and occupancy costs	\$ 1,162,199	\$ 740,219
Depreciation on right-of-use assets	77,730	65,688
Depreciation on property and equipment	41,709	33,771
Cost of goods sold	\$ 1,281,638	\$ 839,678

	February 26, 2023	February 27, 2022
Personnel expenses		
Salaries, wages and employee benefits	\$ 483,182	\$ 316,877
Stock-based compensation expense (note 15)	24,369	26,131
Government payroll subsidies	—	(1,834)
Personnel expenses	\$ 507,551	\$ 341,174

	February 26, 2023	February 27, 2022
Finance expense		
Interest expense on lease liabilities (note 9)	\$ 27,336	\$ 22,346
Interest expense and banking fees	3,743	2,555
Amortization of deferred financing fees	184	301
Finance expense	\$ 31,263	\$ 25,202

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

	February 26, 2023	February 27, 2022
Other expense (income)		
Realized foreign exchange loss (gain)	\$ (9,109)	\$ 1,685
Unrealized foreign exchange loss (gain)	(1,657)	(2,839)
Fair value adjustment of non-controlling interest in exchangeable shares liability	—	2,000
Unrealized loss (gain) on equity derivative contracts (note 13)	6,093	(11,192)
Realized loss (gain) on equity derivative contracts (note 13)	(1,387)	—
CYC integration and acquisition costs	467	2,633
2022 and 2021 Secondary Offering costs (note 14)	518	530
Interest and other income	(2,841)	(1,600)
Other expense (income)	\$ (7,916)	\$ (8,783)

19 Income taxes

Income tax expense

	February 26, 2023	February 27, 2022
Current period	\$ 64,541	\$ 73,746
Adjustments with respect to prior periods	327	135
Current tax expense	64,868	73,881
Origination and reversal of temporary differences	11,256	(11,428)
Changes in substantively enacted tax rates	180	408
Adjustments with respect to prior periods	(85)	(178)
Deferred tax expense (recovery)	\$ 11,351	\$ (11,198)
Income tax expense	\$ 76,219	\$ 62,683

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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 26, 2023 and February 27, 2022 of 26.6%, as follows:

	February 26, 2023	February 27, 2022
Income before income taxes	\$ 263,807	\$ 219,600
Expected income tax expense	70,173	58,414
Increase (decrease) in income taxes resulting from:		
Non-deductible stock-based compensation	5,119	3,008
Non-deductible fair value adjustment of non-controlling interest in exchangeable shares liability	—	540
Foreign tax rate differences	541	331
Other	386	390
Income tax expense	\$ 76,219	\$ 62,683

Deferred income tax

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at February 26, 2023 and February 27, 2022 are as follows:

	February 26, 2023	February 27, 2022
Leases	\$ 42,716	\$ 38,186
Deferred revenue	5,502	3,553
Inventory	3,966	14,837
Stock-based compensation	3,053	1,075
Accounts payable and accrued liabilities	3,024	3,175
Deferred lease incentives	1,790	1,795
Net operating loss	1,110	537
Financing and share issuance costs	970	1,000
Other	772	803
Deferred tax assets	\$ 62,903	\$ 64,961
Property and equipment	\$ 31,159	\$ 31,770
Goodwill and intangible assets	40,529	31,606
Other	14	33
Deferred tax liabilities	\$ 71,702	\$ 63,409
Net deferred tax assets (liabilities)	\$ (8,799)	\$ 1,552

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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

	February 26, 2023	February 27, 2022
Deferred tax expense (recovery) recorded in net income	\$ 11,351	\$ (11,198)
Deferred tax liability related to CYC Design acquisition (note 5)	—	7,630
Foreign currency translation adjustment on deferred taxes	(1,000)	(175)
Net change in deferred tax liabilities	\$ 10,351	\$ (3,743)

Of the deferred income tax balances, the Company expects \$51.3 million of the deferred tax assets to be recovered within 12 months and \$44.9 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.

20 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:

	February 26, 2023	February 27, 2022
United States	\$ 1,120,962	\$ 676,135
Canada	1,074,668	818,495
Net revenue	\$ 2,195,630	\$ 1,494,630

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

	February 26, 2023	February 27, 2022
Canada	\$ 693,303	\$ 534,419
United States	514,594	337,902
Non-current, non-financial assets	\$ 1,207,897	\$ 872,321

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

21 Commitments and contingencies

Product purchase obligations

At February 26, 2023, the Company had purchase obligations of \$158.0 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.

Letters of credit

At February 26, 2023, the Company had open letters of credit of \$31.6 million (February 27, 2022 - \$43.5 million).

22 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.

During the year ended February 26, 2023, the Company made payments of \$5.4 million (February 27, 2022 - \$4.9 million) for lease of premises and management services and \$1.3 million (February 27, 2022 - \$1.0 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 26, 2023, a nominal amount was included in accounts payable and accrued liabilities (February 27, 2022 - \$0.5 million). As at February 26, 2023, the outstanding balance of lease liabilities owed to these companies was \$49.7 million (February 27, 2022 - \$13.3 million). These transactions were measured at the amount of consideration established at market terms.

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

	February 26, 2023	February 27, 2022
Salaries, directors' fees and short-term benefits	4,404	4,906
Stock-based compensation expense	6,617	8,685
Key management compensation	\$ 11,021	\$ 13,591

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

23 Supplemental cash flow information

The net change in non-cash working capital balances for the years ended February 26, 2023 and February 27, 2022 were as follows:

	February 26, 2023	February 27, 2022
Accounts receivable	\$ (3,616)	\$ (3,107)
Inventory	(252,376)	(28,997)
Prepaid expenses and other current assets	(6,869)	1,913
Other assets	322	(1,538)
Accounts payable and accrued liabilities	20,053	32,899
Deferred revenue	13,530	17,553
Net change in non-cash working capital balances	\$ (228,956)	\$ 18,723
Accrued purchases of property and equipment	\$ 14,231	\$ 9,196
Accrued purchases of intangible assets	\$ 219	\$ 172

24 Financial risk management

The Company is exposed to a variety of financial risks in the normal course of operations including currency, equity price, 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, equity price risk, credit risk and liquidity risk.

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 26, 2023, the Company had no outstanding foreign currency forward contracts.

As at February 26, 2023, a \$0.05 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 \$1.3 million on net income.

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

Interest rate risk

The Company has a revolving credit facility which provides available borrowings in an amount up to \$175.0 million. Because the revolving credit facility bears interest at a variable rate, the Company is exposed to market risks relating to changes in interest rates on outstanding balances. As at February 26, 2023, no advances were made under the revolving credit facility.

Equity price risk

The Company is exposed to risk arising from cash-settled deferred and restricted share units, as an appreciating subordinate voting share price increases the potential cash outflow. The Company records a liability for the potential future settlement of the deferred and restricted share units by reference to the fair value of the liability. The company uses equity derivative contracts (total return swaps) to offset the cash flow variability of the expected payment associated with deferred and restricted share units. The Company only enters into equity derivative contracts with major financial institutions. As at February 26, 2023, an increase (or decrease) in the Company's share price by \$1.00 would result in an increase (or decrease) of \$0.5 million in the fair value of the liability.

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.

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 26, 2023 and February 27, 2022, no advances were made under this revolving credit facility. As at February 27, 2022, the Company also has letters of credit facilities of CAD\$50.0 million and US\$40.0 million (February 27, 2022 – CAD\$75.0 million), of which \$31.6 million of letters of credit were outstanding (February 27, 2022 – \$43.5 million).

The following table summarizes the undiscounted contractual maturities of the Company's financial liabilities as at February 26, 2023:

Aritzia Inc.

Notes to Consolidated Financial Statements

February 26, 2023 and February 27, 2022

(in thousands of Canadian dollars, unless otherwise noted)

	Less than 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	\$ 221,712	\$ —	\$ —	\$ 221,712
Lease liabilities	152,520	443,102	376,490	972,112
Contingent consideration	6,619	—	—	6,619
Non-controlling interest in exchangeable shares liability	—	39,300	—	39,300
Total	\$ 380,851	\$ 482,402	\$ 376,490	\$ 1,239,743

25 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 revolving credit facility 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.

The Company is subject to financial covenants and collateral pursuant to its revolving credit facility presented in note 12.