

ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
First Quarter of Fiscal 2024

For the 13-week periods ended
May 28, 2023 and May 29, 2022

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at May 28, 2023 and February 26, 2023

(Unaudited, in thousands of Canadian dollars)

	Note	May 28, 2023	February 26, 2023
Assets			
Cash and cash equivalents		\$ 58,793	\$ 86,510
Accounts receivable		11,328	18,184
Income taxes recoverable		8,338	6,419
Inventory	5	485,012	467,634
Prepaid expenses and other current assets	12	31,697	33,101
Total current assets		\$ 595,168	\$ 611,848
Property and equipment	6	339,722	308,608
Intangible assets	7	85,597	86,382
Goodwill	7	198,846	198,846
Right-of-use assets	8	585,185	614,061
Other assets	12	5,075	3,830
Deferred tax assets	18	19,483	12,968
Total assets		\$ 1,829,076	\$ 1,836,543
Liabilities			
Accounts payable and accrued liabilities	9	\$ 240,384	\$ 221,712
Income taxes payable		1,170	—
Current portion of contingent consideration	12	—	6,619
Current portion of lease liabilities	8	121,852	117,316
Deferred revenue		68,397	71,653
Total current liabilities		\$ 431,803	\$ 417,300
Lease liabilities	8	627,987	654,690
Other non-current liabilities	10	15,894	21,499
Non-controlling interest in exchangeable shares liability	12	—	35,500
Deferred tax liabilities	18	22,216	21,767
Total liabilities		\$ 1,097,900	\$ 1,150,756
Shareholders' equity			
Share capital	13	\$ 284,477	\$ 265,519
Contributed surplus		80,118	68,682
Retained earnings		369,939	355,270
Accumulated other comprehensive loss		(3,358)	(3,684)
Total shareholders' equity		731,176	685,787
Total liabilities and shareholders' equity		\$ 1,829,076	\$ 1,836,543
Commitments and contingencies	20		

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

Aritzia Inc.
Condensed Interim Consolidated Statements of Operations
For the 13-week periods ended May 28, 2023 and May 29, 2022

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

	Note	May 28, 2023	May 29, 2022
Net revenue	16, 19	\$ 462,665	\$ 407,910
Cost of goods sold	17	282,714	227,014
Gross profit		179,951	180,896
Operating expenses			
Selling, general and administrative		153,459	120,279
Stock-based compensation expense	14, 17	4,928	673
Income from operations		21,564	59,944
Finance expense	8, 11, 17	11,232	6,048
Other expense (income)	12, 17	(10,371)	6,522
Income before income taxes		20,703	47,374
Income tax expense	18	3,233	14,113
Net income		\$ 17,470	\$ 33,261
Net income per share			
Basic	15	\$ 0.16	\$ 0.30
Diluted	15	\$ 0.15	\$ 0.29
Weighted average number of shares outstanding (thousands)			
Basic	15	110,490	111,032
Diluted	15	114,793	116,080

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

For the 13-week periods ended May 28, 2023 and May 29, 2022

(Unaudited, in thousands of Canadian dollars)

	May 28, 2023	May 29, 2022
Net income	\$ 17,470	\$ 33,261
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	326	(573)
Comprehensive income	\$ 17,796	\$ 32,688

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 13-week periods ended May 28, 2023 and May 29, 2022

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

	Multiple voting shares		Subordinate voting shares		Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amounts	Shares	Amounts				
Balance, February 27, 2022	21,937,349	\$ 15,858	89,181,069	\$ 235,433	\$ 56,342	\$ 223,553	\$ (375)	\$ 530,811
Net Income	—	—	—	—	—	33,261	—	33,261
Options exercised (note 14)	—	—	65,518	1,055	(437)	—	—	618
Stock-based compensation expense on equity-settled plans (note 14)	—	—	—	—	3,224	—	—	3,224
Shares repurchased for cancellation (note 13)	—	—	(869,380)	(2,295)	—	(30,431)	—	(32,726)
Share repurchase commitment under the automatic share purchase plan (note 13)	—	—	—	(1,060)	—	(13,940)	—	(15,000)
Foreign currency translation adjustment	—	—	—	—	—	—	(573)	(573)
Balance, May 29, 2022	21,937,349	\$ 15,858	88,377,207	\$ 233,133	\$ 59,129	\$ 212,443	\$ (948)	\$ 519,615
Balance, February 26, 2023	20,437,349	\$ 14,774	90,005,261	\$ 250,745	\$ 68,682	\$ 355,270	\$ (3,684)	\$ 685,787
Net Income	—	—	—	—	—	17,470	—	17,470
Options exercised (note 14)	—	—	145,803	3,843	(1,088)	—	—	2,755
Stock-based compensation expense on equity-settled plans (note 14)	—	—	—	—	5,878	—	—	5,878
Shares repurchased for cancellation (note 13)	—	—	(85,800)	(239)	—	(2,801)	—	(3,040)
Shares issued to settle non-controlling interest in exchangeable shares liability (note 12)	—	—	419,047	15,354	6,646	—	—	22,000
Foreign currency translation adjustment	—	—	—	—	—	—	326	326
Balance, May 28, 2023	20,437,349	\$ 14,774	90,484,311	\$ 269,703	\$ 80,118	\$ 369,939	\$ (3,358)	\$ 731,176

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the 13-week periods ended May 28, 2023 and May 29, 2022

(Unaudited, in thousands of Canadian dollars)

	Note	May 28, 2023	May 29, 2022
Operating activities			
Net income for the period		\$ 17,470	\$ 33,261
Adjustments for:			
Depreciation and amortization	6,7	14,914	12,300
Depreciation on right-of-use assets	8	24,927	17,771
Finance expense	17	11,232	6,048
Stock-based compensation expense	14, 17	4,928	673
Unrealized loss (gain) on equity derivative contracts	12, 17	3,439	8,527
Income tax expense	18	3,233	14,113
Amortization of deferred lease inducements		(295)	(268)
Fair value adjustment of non-controlling interest in exchangeable shares liability	17	(15,000)	—
Cash generated before non-cash working capital balances and interest and income taxes		64,848	92,425
Net change in non-cash working capital	22	(16,766)	(27,570)
Cash generated before interest and income taxes		48,082	64,855
Interest paid		(1,094)	(639)
Interest paid on lease liabilities	8	(10,093)	(5,409)
Income taxes paid		(10,050)	(68,125)
Net cash generated from operating activities		26,845	(9,318)
Financing activities			
Repayment of principal on lease liabilities	8	(21,364)	(21,212)
Proceeds from lease incentives		9,034	1,272
Proceeds from options exercised	14	2,755	618
Shares repurchased for cancellation	13	(3,040)	(25,454)
Net cash used in financing activities		(12,615)	(44,776)
Investing activities			
Purchase of property and equipment	6	(34,939)	(25,420)
Purchase of intangible assets	7	(599)	(207)
Contingent consideration payout, net relating to the acquisition of CYC Design Corporation	12	(6,303)	(5,625)
Cash used in investing activities		(41,841)	(31,252)
Effect of exchange rate changes on cash and cash equivalents		(106)	(541)
Change in cash and cash equivalents		(27,717)	(85,887)
Cash and cash equivalents – Beginning of period		86,510	265,245
Cash and cash equivalents – End of period		\$ 58,793	\$ 179,358

Supplemental cash flow information

22

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

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

1 Nature of operations and basis of presentation

Nature of operations

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

On June 25, 2021, the Company acquired 75% of the common shares in CYC Design Corporation (“CYC”), a leading designer and manufacturer of premium athletic wear, Reigning Champ. 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. On May 26, 2023, the Company acquired the remaining 25% ownership interest in CYC (note 12).

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 unaudited condensed interim consolidated financial statements (“interim financial statements”) have been prepared under International Financial Reporting Standards (“IFRS”) in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements. Certain information, in particular the accompanying notes normally included in the audited annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 26, 2023 (“Fiscal 2023”). These unaudited condensed interim 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. Fiscal 2024 is a 53-week year and Fiscal 2023 was a 52-week year. All references to 2024 represent the fiscal year ending March 3, 2024 and all references to 2023 represent the fiscal year ended February 26, 2023.

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 July 11, 2023 by the Company’s Board of Directors (“Board”).

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

2 Summary of significant accounting policies

These interim financial statements have been prepared using the accounting policies as outlined in note 2 of the Fiscal 2023 audited consolidated financial statements, with the exception of any accounting standards adopted in the year ending March 3, 2024 ("Fiscal 2024").

3 Accounting policy developments

Standards, interpretations and amendments issued and adopted

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 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 Company assessed the impact of the amendment and determined there is no material impact on the unaudited condensed interim consolidated financial statements.

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 assessed the impact of the amendment and determined there is no material impact on the unaudited condensed interim consolidated financial statements.

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 assessed the impact of the amendment and determined there is no material impact on the unaudited condensed interim consolidated financial statements.

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

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

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.

4 Critical accounting estimates and judgments

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

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in note 4 of the Fiscal 2023 audited consolidated financial statements.

5 Inventory

	May 28, 2023	February 26, 2023
Finished goods	\$ 406,731	\$ 397,629
Finished goods-in-transit	66,827	60,527
Raw materials	11,454	9,478
Inventory	\$ 485,012	\$ 467,634

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 \$8.3 million for the 13-week period ended May 28, 2023 (May 29, 2022 - \$0.7 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 11).

6 Property and equipment

During the 13-week period ended May 28, 2023, the Company had property and equipment additions of \$44.3 million (May 29, 2022 - \$23.2 million), the majority of which were related to leasehold improvements made to its boutiques, distribution centers and support offices, and the respective purchase of furniture and equipment for those spaces.

7 Goodwill and intangible assets

During the 13-week period ended May 28, 2023, the Company had intangible asset additions of \$0.7 million (May 29, 2022 - \$0.4 million), the majority of which were related to internally developed computer software.

8 Leases

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

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

The following table reconciles the change in right-of-use assets for the 13-week period ended May 28, 2023:

	Right-of-use assets
Cost	
Balance, February 26, 2023	\$ 878,593
Additions, net of lease incentives received	957
Modifications	(5,438)
Foreign exchange	39
Balance, May 28, 2023	\$ 874,151
Accumulated depreciation	
Balance, February 26, 2023	\$ 264,532
Depreciation	24,794
Amortization of fair value adjustment on CYC leases	133
Modifications	(554)
Foreign exchange	61
Balance, May 28, 2023	\$ 288,966
Net carrying value	
Balance, February 26, 2023	\$ 614,061
Balance, May 28, 2023	\$ 585,185

The following table reconciles the change in the lease liabilities for the 13-week period ended May 28, 2023:

	Lease liabilities
Balance, February 26, 2023	\$ 772,006
Additions	6,030
Interest expense on lease liabilities (note 17)	10,093
Repayment of interest and principal on lease liabilities	(31,457)
Modifications	(6,896)
Foreign exchange	63
Balance, May 28, 2023	\$ 749,839
Current portion of lease liabilities	121,852
Long-term portion of lease liabilities	627,987
Lease liabilities	\$ 749,839

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

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

	13-week periods ended	
	May 28, 2023	May 29, 2022
Depreciation on right-of-use assets, excluding fair value adjustments	\$ 24,794	\$ 17,638
Interest expense on lease liabilities (note 17)	10,093	5,409
Variable lease expense	6,786	5,687
Lease payments relating to short-term or low value leases	850	712
Common area maintenance, property taxes and other	11,139	9,266
Total rent and rent-related expenses	\$ 53,662	\$ 38,712

9 Accounts payable and accrued liabilities

	May 28, 2023	February 26, 2023
Trade accounts payable	\$ 150,297	\$ 149,422
Employee benefits payable	56,469	44,205
Other non-trade payables	23,152	22,351
Current portion of Restricted Share Unit ("RSU") plan liabilities (note 14)	10,466	5,734
Accounts payable and accrued liabilities	\$ 240,384	\$ 221,712

10 Other non-current liabilities

	May 28, 2023	February 26, 2023
RSU and Deferred Share Unit ("DSU") plan liabilities (note 14)	\$ 9,233	\$ 14,914
Deferred lease inducements	6,246	6,174
Asset retirement obligations	415	411
Other non-current liabilities	\$ 15,894	\$ 21,499

11 Bank indebtedness

On July 13, 2021, the Company refinanced its term loan and revolving credit facility resulting in an increase to the revolving credit facility to \$175.0 million and extension of term to July 13, 2025.

The revolving credit facility bears interest at banker's acceptance rate ("BA"), London Inter-Bank Offered Rate ("LIBO") (subsequently replaced on June 30, 2023 with Secured Overnight Financing Rate or "SOFR") or Canadian prime rate, plus a marginal rate between 0.50% and 2.50% (February 26, 2023 – 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 May 28, 2023 and February 26, 2023, 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 26, 2023 - CAD\$50.0 million and US\$40.0 million) secured pari passu with the revolving credit facility. The interest rate for

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

the letters of credit is between 1.00% and 2.50%. As at May 28, 2023, the amount available under these facilities was reduced to \$78.6 million (February 26, 2023 - \$72.9 million) by certain open letters of credit (note 20).

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 May 28, 2023 and February 26, 2023, the Company was in compliance with all financial covenants.

12 Financial instruments

Equity derivative contracts

The Company has equity derivative contracts (total return swaps) to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts are not designated as hedging instruments for accounting purposes. During the 13-week period ended May 28, 2023, the Company recorded unrealized losses of \$3.4 million for the change in fair value for these contracts in the condensed interim consolidated statements of operations in other expense (income) (May 29, 2022 - \$8.5 million). As at May 28, 2023, the equity derivative contracts had a positive fair value of \$6.0 million (February 26, 2023 - \$9.5 million) which is recorded in prepaid expenses and other current assets in the consolidated statements of financial position.

Contingent consideration

The Company had a contingent consideration under the CYC purchase agreement that was 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 was payable in two equal installments of \$6.6 million on May 31, 2022 and May 31, 2023. During the 13-week period ended May 28, 2023, the final installment was paid to the CYC shareholder net of \$0.3 million in indemnities and shared costs pursuant to the purchase agreement (May 29, 2022 - net of \$1.0 million in indemnities and shared costs).

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 allowed 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 did not exercise the put options by August 31, 2026, the Company had 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 were 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 were to be 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 was estimated initially, and on a recurring basis, based on a Monte Carlo simulation that was 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 were then discounted back to the valuation date.

As a result of the Company's early acquisition of the remaining 25% ownership interest held through the CYC exchangeable shares on May 26, 2023 (see below), the Company revalued the non-controlling interest in

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

exchangeable shares liability to \$20.5 million as at May 26, 2023 based on a Monte Carlo simulation which resulted in a \$15.0 million gain recorded in other expense (income). The following assumptions were used:

Initial business enterprise value (100%)	\$63.0 million
Capped enterprise value (remaining 25% purchase)	\$60.0 million
Gross profit expected volatility	11.0%
Gross profit discount rate	9.0%
Expected life	3.3 years

As at May 26, 2023, subsequent to the remeasurement discussed above, the non-controlling interest in exchangeable shares liability was settled and reduced to nil (February 26, 2023 - \$35.5 million) in connection with the early acquisition of CYC exchangeable shares with the offset recorded against share capital, contributed surplus and other non-current assets (net derivative asset).

Early 100% Acquisition of CYC

On May 26, 2023, the Company and the exchangeable shareholders agreed to the Company's early acquisition of the remaining 25% ownership interest held through the CYC exchangeable shares. The Company issued 419,047 subordinate voting shares ("Upfront Shares") on May 26, 2023 and the right to receive additional subordinate voting shares ("Additional Shares") by March 31, 2026 with a value based on certain Fiscal 2026 operational performance metrics of the Reigning Champ brand. Both the Upfront Shares and Additional Shares are subject to forfeiture rates if the exchangeable shareholder leaves before the end of Fiscal 2026. The Upfront Shares were recognized in share capital (\$15.4 million) and the Additional Shares with an estimated value up to \$9.8 million were treated as compensation for future services with a portion recognized in contributed surplus (\$6.6 million) and the remainder (\$2.8 million) to be recognized over the period ending in Fiscal 2026.

The Upfront Shares are also subject to an escrow agreement with one third to be released at the end of each of Fiscal 2024, 2025 and 2026 and subject to future adjustments ("Share Adjustments") based on set minimum and maximum total values at the end of Fiscal 2026. The Share Adjustments feature are treated as an embedded derivative within other non-current assets (\$1.5 million) on the consolidated statements of financial position.

13 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. Details relating to the 2022 and Secondary Offering are summarized in the following table:

Aritzia Inc.

Notes to Consolidated Financial Statements

May 28, 2023

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

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

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 13-week period ended May 28, 2023, the Company repurchased a total of 85,800 subordinate voting shares for cancellation at an average price of \$35.42 per subordinate voting share for total cash consideration of \$3.0 million.

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 13 week period ended May 29, 2022, the Company repurchased a total of 869,380 subordinate voting shares for cancellation at an average price of \$37.63 per subordinate voting share for total cash consideration of \$32.7 million.

As at May 28, 2023, there were 20,437,349 multiple voting shares and 90,484,311 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at May 28, 2023. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

Aritzia Inc.

Notes to Consolidated Financial Statements

May 28, 2023

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

14 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.

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 represent equity-settled awards subject to performance targets.

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

	May 28, 2023	May 29, 2022
Equity-settled plans		
Stock options	\$ 4,078	\$ 2,846
Restricted Share Units	1,075	—
Performance Share Units	725	378
Cash-settled plans		
Restricted Share Units	(303)	(987)
Deferred Share Units	(647)	(1,564)
Stock-based compensation expense	\$ 4,928	\$ 673

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
May 28, 2023

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

Transactions for options granted under the Legacy Plan for the 13-week periods ended May 28, 2023 and May 29, 2022 were as follows:

	May 28, 2023		May 29, 2022	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	1,846,630	5.48	2,213,883	\$ 5.35
Exercised	(3,000)	3.57	(40,477)	5.81
Outstanding, at end of period	1,843,630	5.48	2,173,406	\$ 5.34

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 13-week periods ended May 28, 2023 and May 29, 2022 were as follows:

	May 28, 2023		May 29, 2022	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	7,336,092	\$ 24.92	6,380,499	\$ 21.16
Granted	116,976	34.15	109,039	37.38
Exercised	(142,803)	19.21	(24,865)	15.42
Forfeited	(75,218)	32.13	(50,283)	27.14
Outstanding, at end of period	7,235,047	\$ 25.10	6,414,390	\$ 21.42

The weighted average fair value of stock options estimated at the grant date for the 13-week period ended May 28, 2023 was \$14.93 (May 29, 2022 - \$14.80), based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	43.9%
Risk-free interest rate	2.9%
Expected life	5.0 years
Exercise price	\$34.15

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

May 28, 2023

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

Director Deferred Share Unit Plan

The following table summarizes information related to DSUs:

	13-week periods ended	
	May 28, 2023	May 29, 2022
Number of units		
Outstanding, at beginning of period	182,811	153,826
Granted	8,740	7,607
Outstanding, at end of period	191,551	161,433
	As at	
	May 28, 2023	February 26, 2023
Additional information		
Fair value of DSU liability	7,018	7,665

Restricted Share Unit Plan

The following tables summarize information related to RSUs:

	13-week periods ended			
	May 28, 2023		May 29, 2022	
	Cash-settled	Equity-settled	Cash-settled	Equity-settled
Number of units				
Outstanding, at beginning of period	496,221	360,588	652,846	—
Granted	—	30,137	—	30,936
Settled	—	—	(31,393)	—
Forfeited	(10,704)	(4,960)	(5,762)	—
Outstanding, at end of period	485,517	385,765	615,691	30,936

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

	As at	
	May 28, 2023	February 26, 2023
Additional information		
Fair value of RSU liability	12,680	12,983

Performance Share Unit Plan

The following table summarizes information related to PSUs for the 13-week periods ended May 28, 2023 and May 29, 2022:

	May 28, 2023	May 29, 2022
Number of units		
Outstanding, at beginning of period	201,060	96,836
Granted	—	—
Outstanding, at end of period	201,060	96,836

15 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.

	13-week periods ended	
	May 28, 2023	May 29, 2022
Net income attributable to shareholders of the Company	\$ 17,470	\$ 33,261
Weighted average number of shares outstanding during the period (thousands)	110,490	111,032
Basic net income per share	\$ 0.16	\$ 0.30

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, the non-controlling interest in exchangeable shares liability and Additional Shares.

	13-week periods ended	
	May 28, 2023	May 29, 2022
Net income attributable to shareholders of the Company	\$ 17,470	\$ 33,261
Weighted average number of shares for net income per diluted share (thousands)	114,793	116,080
Net income per diluted share	\$ 0.15	\$ 0.29

Aritzia Inc.

Notes to Consolidated Financial Statements

May 28, 2023

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

For the 13-week period ended May 28, 2023, 2,018,469 stock options and equity-settled RSUs, along with the Additional Shares were not included in the calculation of diluted net income per share as they were anti-dilutive or contingently issuable, respectively (May 29, 2022 – 319,554 stock options and the non-controlling interest in exchangeable shares liability).

16 Net Revenue

Net revenue disaggregated for boutiques and eCommerce was as follows:

	13-week periods ended	
	May 28, 2023	May 29, 2022
Retail net revenue	\$ 327,570	\$ 287,824
eCommerce net revenue	135,095	120,086
Net revenue	\$ 462,665	\$ 407,910

17 Expenses by nature

	13-week periods ended	
	May 28, 2023	May 29, 2022
Cost of goods sold		
Inventory and product-related costs and occupancy costs	\$ 248,269	\$ 200,318
Depreciation on right-of-use assets	23,043	17,162
Depreciation on property and equipment	11,402	9,534
Cost of goods sold	\$ 282,714	\$ 227,014

	13-week periods ended	
	May 28, 2023	May 29, 2022
Personnel expenses		
Salaries, wages and employee benefits	\$ 124,355	\$ 96,294
Stock-based compensation expense (note 14)	4,928	673
Personnel expenses	\$ 129,283	\$ 96,967

	13-week periods ended	
	May 28, 2023	May 29, 2022
Finance expense		
Interest expense on lease liabilities (note 8)	\$ 10,093	\$ 5,409
Interest expense and banking fees	1,094	593
Amortization of deferred financing fees	45	46
Finance expense	\$ 11,232	\$ 6,048

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

	13-week periods ended	
	May 28, 2023	May 29, 2022
Other expense (income)		
Realized foreign exchange loss (gain)	\$ 4	\$ 77
Unrealized foreign exchange loss (gain)	359	(1,577)
Fair value adjustment of non-controlling interest in exchangeable shares liability	(15,000)	—
Unrealized loss (gain) on equity derivative contracts (note 12)	3,439	8,527
CYC integration and acquisition costs	1,332	—
Interest and other income	(505)	(505)
Other expense (income)	\$ (10,371)	\$ 6,522

18 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week periods ended May 28, 2023 and May 29, 2022, was 26.7% and 26.6%, respectively. The Company's effective income tax rate for the 13-week periods ended May 28, 2023 and May 29, 2022 was 15.6% and 29.8%, respectively. The effective tax rates are driven largely by the proportionate amount of non-deductible stock-based compensation expense on equity settled plans relative to net income and for the 13-week period ended May 28, 2023 the non-deductible fair value adjustment of non-controlling interest in exchangeable shares liability.

19 Segment information

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate resources by the Chief Operating Decision Maker (the "CODM"). The Company has determined that the Chief Executive Officer together with the Founder, Executive Chair are its CODM and there is one operating segment. Therefore, the Company reports as a single segment. This includes all sales channels accessed by the Company's clients, including sales through the Company's eCommerce website and sales at the Company's boutiques.

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

	13-week periods ended	
	May 28, 2023	May 29, 2022
United States	\$ 251,892	\$ 206,784
Canada	210,773	201,126
Net revenue	\$ 462,665	\$ 407,910

Aritzia Inc.
Notes to Consolidated Financial Statements
May 28, 2023

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

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

	May 28, 2023	February 26, 2023
Canada	\$ 701,851	\$ 693,303
United States	507,499	514,594
Non-current, non-financial assets	\$ 1,209,350	\$ 1,207,897

20 Commitments and contingencies

Product purchase obligations

At May 28, 2023, the Company had purchase obligations of \$121.2 million (February 26, 2023 - \$158.0 million), which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

Letters of credit

At May 28, 2023, the Company had open letters of credit of \$25.9 million (February 26, 2023 - \$31.6 million).

21 Related party transactions

The Company is ultimately controlled by AHI Holdings Inc. and related entities which are controlled by a director and officer of the Company.

The Company entered into the following transactions with related parties:

- a) During the 13-week period ended May 28, 2023, the Company made payments of \$1.0 million (May 29, 2022 - \$1.2 million) for lease of premises and management services and a nominal amount (May 29, 2022 - \$0.1 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 May 28, 2023, \$0.7 million was included in accounts payable and accrued liabilities (February 26, 2023 - nominal). As at May 28, 2023, the outstanding balance of lease liabilities owed to these companies was \$49.2 million (February 26, 2023 - \$49.7 million). These transactions were measured at the amount of consideration established at market terms.
- b) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	13-week periods ended	
	May 28, 2023	May 29, 2022
Salaries, directors' fees and short-term benefits	1,253	1,189
Stock-based compensation expense	1,138	(609)
Key management compensation	\$ 2,391	\$ 580

In addition to the compensation presented above, certain key management received a retroactive adjustment to compensation relating to Fiscal 2023, resulting in an additional expense of \$0.8 million during the 13-week period ended May 28, 2023.

Aritzia Inc.

Notes to Consolidated Financial Statements

May 28, 2023

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

22 Supplemental cash flow information

The net change in non-cash working capital balances for the 13-week periods ended May 28, 2023 and May 29, 2022 were as follows:

	May 28, 2023	May 29, 2022
Accounts receivable	\$ 1,847	\$ 2,370
Inventory	(17,313)	(90,596)
Prepaid expenses and other current assets	(2,402)	(720)
Other assets	(1,291)	(236)
Accounts payable and accrued liabilities	5,649	64,562
Deferred revenue	(3,256)	(2,950)
Net change in non-cash working capital balances	\$ (16,766)	\$ (27,570)
Accrued purchases of property and equipment	\$ 23,939	\$ 6,835
Accrued purchases of intangible assets	\$ 351	\$ 410