ARITZIA

Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Third Quarter Ended November 29, 2020

January 13, 2021

The following Management's Discussion and Analysis ("MD&A") dated January 13, 2021 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Aritzia Inc. (together with its consolidated subsidiaries, referred to herein as "Aritzia", the "Company", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the thirteen-week and thirty-nine week periods ended November 29, 2020. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2021 and YTD 2021 (as hereinafter defined) and the Company's audited consolidated financial statements and accompanying notes for Fiscal 2020 (as hereinafter defined) and the related Management's Discussion and Analysis.

Basis of Presentation

Our audited annual consolidated financial statements and unaudited condensed interim consolidated financial statements (together, the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. All amounts are presented in thousands of Canadian dollars unless otherwise indicated. We manage our business on the basis of one operating and reportable segment.

All references in this MD&A to "Q3 2021" are to our 13-week period ended November 29, 2020, to "Q3 2020" are to our 13-week period ended December 1, 2019, to "YTD 2021" are to our 39-week period ended November 29, 2020, to "YTD 2020" are to our 39-week period ended December 1, 2019, to "Q1 2021" are to our 13-week period ended May 31, 2020, to "Q2 2021" are to our 13-week period ending August 30, 2020 and to "Q4 2021" are to our 13-week period ending February 28, 2021. All references in this MD&A to "Fiscal 2021" are to our 52-week period ending February 28, 2021 and to "Fiscal 2020" are to our 52-week period ended March 1, 2020.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2021 and YTD 2021 and this MD&A were authorized for issue by the Company's Board of Directors.

Non-IFRS Measures Including Retail Industry Metrics

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

compensation. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see the "How We Assess the Performance of Our Business" and "Selected Consolidated Financial Information" sections of this MD&A.

Forward-Looking Information

Certain statements made in this MD&A may constitute forward-looking information under applicable securities laws. These statements may relate to our future financial outlook, our ability to sustain momentum in our eCommerce business, the impact of health and safety measures including capacity restrictions and mandated closures on retail performance and labour and operating expenses, our ability to drive digital innovation of eCommerce and Omni, geographic expansion, product development, and brand awareness, our ability to weather further uncertainty, achieve meaningful growth and take advantage of opportunities, the income continuity for employees impacted by boutique closures, including from government wage subsidies where applicable, our ability to invest in critical infrastructure across our people, processes and technology and our expectations of capital expenditures for Fiscal 2021 of approximately $30 to $35 million. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

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

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

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

Overview

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

Founded in Vancouver in 1984, Aritzia has more than 100 locations in select cities across North America, including Vancouver, Toronto, Montreal, New York, Los Angeles, San Francisco and Chicago. We pride ourselves on creating immersive, human and highly personal shopping experiences, both in our boutiques and on aritizia.com – with a focus on delivering Everyday Luxury.

We connect our clients to the energy of our culture through the products we sell and the environments we create. As of the date of this MD&A, we operate 68 boutiques in Canada and 33 boutiques in the United States, averaging approximately 6,000 square feet, all of which are in premier locations within top-tier shopping destinations.

We sell our products through our boutiques and aritzia.com, giving us complete control of the presentation of our brand and the relationships with our clients. This strategy allows us to present our brand in a consistent manner, including pricing, marketing and product merchandising. We strive to offer our clients an aspirational omni-channel shopping experience and exceptional service at every interaction. Our culture is highly focused on the client, and our style advisors are trained to provide shopping experiences that are personalized to exceed our clients' wants and needs.

Financial Highlights

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

Q3 2021 Compared to Q3 2020

Select highlights include the following:

- Net revenue increased by 4.1% to $278.3 million from Q3 2020
- eCommerce revenue increased by 78.5% compared to Q3 2020
- At the start of the quarter, 96% of the Company's boutiques were reopened, with the reclosure of 18 boutiques on November 23rd, 2020, the Company had 82% of boutiques opened at the end of the quarter
- Sales for the reopened boutiques trended on average at 81.0% of last year's productivity levels for the quarter despite significant occupancy restrictions and limited operating hours
- Gross profit margin(1) increased to 45.3% from 44.7% in Q3 2020
- Adjusted EBITDA(1) decreased to $54.6 million from $58.4 million in Q3 2020
- Net income was $30.5 million compared to net income of $34.8 million in Q3 2020
- Adjusted Net Income(1) was $32.2 million compared to $35.7 million in Q3 2020
- Adjusted Net Income per diluted share(1) was $0.29 compared to $0.32 in Q3 2020
- Cash and cash equivalents at Q3 2021 totaled $174.0 million, compared to $95.7 million at Q3 2020
- The Company repaid $100.0 million that it had drawn from its Revolving Credit Facility in March 2020

YTD 2021 Compared to YTD 2020

Select highlights include the following:

- Net revenue decreased by 16.4% to $589.8 million from $705.2 million in YTD 2020.
- Gross profit margin(1) decreased to 35.5% from 42.6% in YTD 2020
- Adjusted EBITDA(1) decreased to $41.6 million from $130.2 million in YTD 2020
- Net income was $3.2 million compared to $68.9 million in YTD 2020
- Adjusted Net Income(1) was $8.4 million compared to $74.0 million in YTD 2020
- Adjusted Net Income per diluted share(1) was $0.07 compared to $0.66 in YTD 2020

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

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus a worldwide pandemic, which continues to spread globally. On March 16, 2020, in line with recommendations by public health officials and guidance from local government authorities, we temporarily closed all of our retail boutiques in Canada and the United States. Our distribution centers remained opened under stringent health and safety protocols as we continued with our eCommerce business. The pandemic has accelerated the shift toward eCommerce across the retail landscape as we saw a shift in our clients' shopping behavior.

On May 7, 2020, we began a phased reopening of our retail boutiques. As part of the reopening plan, we implemented extensive health and safety measures designed to protect our people and clients. As of September 9, 2020, all our boutiques had reopened.

At the start of the Q3 2021, 96% of our boutiques were reopened, with the reclosure of 18 boutiques on November 23, 2020, we had 82% of boutiques opened at the end of Q3 2021. Sales for the reopened boutiques trended on average at 81.0% of last year's productivity levels for the quarter despite significant occupancy restrictions and limited operating hours. As clients returned to our reopened boutiques, our eCommerce revenue growth continued to remain strong, delivering 78.5% growth compared to the third quarter last year.

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

- Managing inventory such that we were well-positioned for the remainder of the Fall/Winter Season;
- Continuing to leverage applicable government business support programs, when qualified, for COVID-19;
- Driving additional cost reductions by minimizing non-essential operating costs and ongoing negotiations with suppliers and landlords for concessions;
- Extending payment terms where possible; and
- Increasing access to work at Aritzia's Support Office in British Columbia to select employees starting June 1, 2020 under stringent health precautions on a voluntary basis.

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

- Paid $20 million through the Aritzia Community™ Relief Fund to ensure financial continuity for our people during boutique closures and to enable seamless boutique reopenings;
- Gifted 100,000 Aritzia Community™ clothing packages to frontline healthcare heroes in Canada and the United States;
- Committed $1 million towards internal Diversity and Inclusion initiatives; and
- Donated $100,000 to Black Lives Matter and the NAACP.

While the full extent of the impact of the pandemic on the Company's business remains unclear, we believe that our increasing revenue combined with our highly effective inventory and cost management will partially mitigate these risks. The extent of the impact of COVID-19 on future periods and for the annual period ending February 28, 2021 will depend on future developments, including the duration or resurgence of the pandemic and any resulting health and safety measures or directives put in place by public health authorities, which are uncertain and cannot be predicted.

See also the "Forward-Looking Information" and "Risk Factors" sections of this MD&A and in our Fiscal Year 2020 AIF.

Summary of Factors Affecting Performance

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

We generally believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See also the "Risk Factors" section of this MD&A and in our Fiscal Year 2020 AIF.

Our Brand

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

Product Innovation and Merchandise Planning Strategy

Each of our exclusive brands is treated as an independent label and is supported by our own dedicated in-house design team focused on creating beautiful, quality products that align with the unique positioning, look and feel of each brand. In addition to creating new exclusive brands, we continue to innovate our products by broadening our assortment across categories and styles – some examples include the development of leather, denim, swim and intimates. Our demand-driven merchandise planning, buying and inventory strategies have been developed and refined for more than three decades, and are designed to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place.

Boutique Network Expansion and Enhancement

We have developed our boutique network in a measured and disciplined manner. We have a portfolio of boutiques situated in premier real estate locations in high performing retail malls and high streets in North America. In addition to opening new Aritzia and exclusive brand boutiques (e.g. Wilfred, Babaton and TNA), we have generated attractive returns on capital by enhancing elements of our existing boutiques (including footprint, layout and assortment) through carefully considered boutique expansions and repositions.

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

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

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

	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Number of boutiques, beginning of period	97	93	96	91
New boutiques	5	1	6	3
Boutique closure due to mall redevelopment	(1)	-	(1)	-
Number of boutiques, end of period	101	94	101	94
Boutiques expanded or repositioned	2	2	3	3

eCommerce Growth

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

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

- *Drive our omni-channel growth and capabilities* – Our clients shop both online and in our boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefiting the other through increased brand awareness and affinity. We have launched digital selling tools in our stores as well as new Aritzia Concierge capabilities that enhances client

interactions. We will seek to integrate these capabilities with the *aritzia.com* experience.

- *Capitalize on digital marketing channels to drive client acquisition and retention* – We are directing resources with a renewed focus on digital marketing, including programs centred on search engine optimization enhancements, refinement of our email marketing, and further leveraging our social media. We made numerous technical enhancements to improve our search engine optimization results, including navigation bread crumbs, improved product descriptions, and data driven category naming. We are pleased with the positive impact this has had on new client visits.
- *Deliver personalized experiences* – We will be leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our clients. This includes optimizing our online operations to enhance personalization, which we believe will drive higher conversion and client loyalty. Our goal is to use personalization techniques to customize product and content recommendations to clients based on where they are and how they shop.
- *Improve the digital experience to enhance the shopping experience online* – We are focused on improving the digital experience across all devices (e.g. desktop, mobile, tablet) to work towards making shopping frictionless. We have implemented a number of core optimizations including user reviews and fit guides, enhancing site search functionality, landing page templates, and numerous checkout improvements to reduce client friction. The core areas of our client's digital journey including content, evaluating, discovery, and purchase are continuously improved resulting in increased conversion rate and average order value.
- *Elevate the brand online* – We see our multi-brand strategy as an asset, and we want to leverage it to create emotional connections with our clients. We are mobilizing resources to enhance how we showcase our exclusive brands and building intuitive tools to allow our clients to easily shop collections of products. We believe this will help improve conversion rates and drive repeat purchases.

Sourcing and Production

We contract and maintain direct relationships with a diversified base of independent suppliers and manufacturers for our exclusive brands, which provide us with the flexibility to source high quality materials and products at competitive costs. We source the majority of our raw materials directly from suppliers and manufacturers, located primarily in China, Japan, Italy, South Korea and France, which we believe to be best-in-class that uphold our standards for quality, lead time and cost. Our finished goods are sourced from manufacturers located primarily in China, Vietnam, India, Romania, Sri Lanka and Cambodia. Capacity planning with our manufacturers is done at the beginning of the season to ensure flexibility. We engage third parties to inspect our manufacturers' factories to ensure quality control. We engage independent expert service providers to conduct factory audits for compliance with local laws and regulations and global standards.

Infrastructure Investments

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

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

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

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

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

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

Our Product Lifecycle Management ("PLM") system is another foundational technology we implemented in October 2020. The PLM system manages all of the data to support all of the processes necessary to bring a product to market. The application is designed to provide visibility into our raw materials and enable us to focus on innovation, drive quality, reduce speed to market and optimize costs in our manufacturing processes.

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

Our focus on building our digital infrastructure impacts everything we do. In our view, digital is about more than just our technology and eCommerce business, it runs through the business all the way from design to the service we deliver in boutiques. These strategic investments in systems, infrastructure and people are expected to increase our efficiency and support our growth.

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

Consumer Trends

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

Seasonality

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

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

First fiscal quarter	20%
Second fiscal quarter	24%
Third fiscal quarter	27%
Fourth fiscal quarter	29%
Yearly total	100%

Weather

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

Competition

We operate in the women's apparel industry, primarily within the North American market. We compete on the basis of several factors that include our strategic mix of exclusive brands, offering high quality products at an attainable price point, our proven and sophisticated merchandise planning strategy, our focus on providing exceptional client service, our premier real estate portfolio and our market positioning. We believe the industry is evolving to benefit players like us that have the scale needed to leverage their infrastructure and capabilities in areas such as brand equity creation, real estate selection, boutique design, supply chain and eCommerce.

Foreign Exchange

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

How We Assess the Performance of Our Business

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

Net Revenue

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

Comparable Sales Growth

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

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

Gross Profit

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

Selling, General and Administrative ("SG&A") Expenses

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

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

EBITDA

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

Adjusted EBITDA

We believe Adjusted EBITDA is a useful measure of operating performance, as it provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities by removing the effects of interest, depreciation and amortization expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted EBITDA as consolidated net income before depreciation and amortization, finance expense and income tax expense, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized gains or losses on equity derivative and forward contracts, an estimate of the rent expense related to the adoption of IFRS 16, Leases and other items we consider non-recurring and not representative of our ongoing operating performance. Because Adjusted EBITDA excludes certain non-cash items, we believe that it is less susceptible to variances in actual performance resulting from depreciation and amortization and other non-cash charges.

Adjusted Net Income (per diluted share)

We believe Adjusted Net Income (per diluted share) is a useful measure of performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business

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

Free Cash Flow

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

Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below has been derived from our unaudited condensed interim consolidated financial statements and related notes.

(in thousands of Canadian dollars, unless otherwise noted)	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Consolidated Statements of Operations:				
Net revenue	$ 278,254	$ 267,282	$ 589,798	$ 705,159
Cost of goods sold	152,171	147,687	380,218	404,576
Gross profit	126,083	119,595	209,580	300,583
Operating expenses				
Selling, general and administrative	74,707	64,035	178,369	179,031
Stock-based compensation expense	3,372	1,063	6,498	5,379
Income from operations	48,004	54,497	24,713	116,173
Finance expense	7,211	7,021	21,956	21,405
Other (income)	(1,532)	(216)	(1,405)	(831)
Income before income taxes	42,325	47,692	4,162	95,599
Income tax expense	11,823	12,889	1,005	26,720
Net income	$ 30,502	$ 34,803	$ 3,157	$ 68,879
Percentage of Net Revenue:				
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	54.7%	55.3%	64.5%	57.4%
Gross profit	45.3%	44.7%	35.5%	42.6%
Operating expenses				
Selling, general and administrative	26.8%	24.0%	30.2%	25.4%
Stock-based compensation expense	1.2%	0.4%	1.1%	0.8%
Income from operations	17.3%	20.4%	4.2%	16.5%
Finance expense	2.6%	2.6%	3.7%	3.0%
Other (income)	(0.6%)	(0.1%)	(0.2%)	(0.1%)
Income before income taxes	15.2%	17.8%	0.7%	13.6%
Income tax expense	4.2%	4.8%	0.2%	3.8%
Net income	11.0%	13.0%	0.5%	9.8%
Other Performance Measures:				
Year-over-year net revenue (decline) growth	4.1%	10.0%	(16.4%)	14.6%
Comparable sales growth[(2)]	n/a	5.1%	n/a	6.9%
Free cash flow	$ 68,387	$ 80,810	$ 61,242	$ 96,590
Capital cash expenditures (excluding proceeds from leasehold inducements)	$ 12,434	$ 13,486	$ 39,480	$ 35,623
Number of boutiques, end of period	101	94	101	94
New boutiques	5	1	6	3
Boutique closed due to mall redevelopment	(1)	-	(1)	-
Boutiques expanded or repositioned	2	2	3	3

[(2)] Please see the "Comparable Sales Growth" subsection of "How We Assess the Performance of Our Business" section of this MD&A.

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

(in thousands of Canadian dollars, unless otherwise noted)	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:				
Net income	$ 30,502	$ 34,803	$ 3,157	$ 68,879
Depreciation and amortization	26,167	23,504	78,016	69,368
Finance expense	7,211	7,021	21,956	21,405
Income tax expense	11,823	12,889	1,005	26,720
EBITDA	75,703	78,217	104,134	186,372
Adjustments to EBITDA:				
Stock-based compensation expense	3,372	1,063	6,498	5,379
Rent impact from IFRS 16, Leases[3]	(22,734)	(20,834)	(67,964)	(61,554)
Unrealized (gain) on equity derivative contracts	(1,776)	-	(1,061)	-
Adjusted EBITDA	$ 54,565	$ 58,446	$ 41,607	$ 130,197
Adjusted EBITDA as a Percentage of Net Revenue	19.6%	21.9%	7.1%	18.5%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	$ 30,502	$ 34,803	$ 3,157	$ 68,879
Adjustments to net income:				
Stock-based compensation expense	3,372	1,063	6,498	5,379
Unrealized (gain) on equity derivative contracts	(1,776)	-	(1,061)	-
Related tax effects	90	(147)	(244)	(298)
Adjusted Net Income	$ 32,188	$ 35,719	$ 8,350	$ 73,960
Adjusted Net Income as a Percentage of Net Revenue	11.6%	13.4%	1.4%	10.5%
Weighted Average Number of Diluted Shares Outstanding (thousands)	112,903	111,898	112,386	111,742
Adjusted Net Income per Diluted Share	$ 0.29	$ 0.32	$ 0.07	$ 0.66

Note (3) Rent Impact from IFRS 16, Leases	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Depreciation and amortization of right-of-use assets	$ (16,834)	$ (14,932)	$ (49,868)	$ (43,963)
Finance expense, related to leases	(5,900)	(5,902)	(18,096)	(17,591)
Rent impact from IFRS 16, Leases	$ (22,734)	$ (20,834)	$ (67,964)	$ (61,554)

(in thousands of Canadian dollars, unless otherwise noted)	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Reconciliation of Comparable Sales to Net Revenue:	*(not applicable)*[5]		*(not applicable)*[5]	
Comparable sales[4]		$ 236,679		$ 604,473
Non-comparable sales		30,603		100,686
Net revenue		$ 267,282		$ 705,159

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

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

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

	As at November 29, 2020	As at March 1, 2020
Selected Consolidated Financial Position Data:		
Total assets	$ 1,154,320	$ 1,036,715
Total non-current liabilities	548,843	550,807

Results of Operations

Analysis of Results for Q3 2021 to Q3 2020

The following section provides an overview of our financial performance during Q3 2021 compared to Q3 2020.

Net Revenue

Net revenue increased by 4.1% to $278.3 million compared to $267.3 million in Q3 2020. The increase in net revenue was primarily driven by the momentum in our eCommerce business, which grew by 78.5% from Q3 2020. This was partially offset by a decline in retail revenue due to occupancy restrictions and reduced operating hours in our boutiques, as well as, government mandated closures.

Gross Profit

Gross profit increased to $126.1 million compared to $119.6 million in Q3 2020. Gross profit margin was 45.3% compared to 44.7% in Q3 2020. The increase in gross profit margin was primarily due to $9.1 million in rent abatements and improvement in product costs, partially offset by the deleverage from reduced retail revenue and higher warehousing and distribution centre costs driven by the growth in our eCommerce business.

SG&A Expenses

SG&A expenses increased by 16.7% to $74.7 million, compared to $64.0 million in Q3 2020. SG&A expenses were 26.8% of net revenue compared to 24.0% of net revenue in Q3 2020. The increase in SG&A expenses during the third quarter was primarily due to COVID-19 related health and safety measures and our continued investment in talent.

Other Income

Other income was $1.5 million in Q3 2021, compared to $0.2 million in Q3 2020.

Other income of $1.5 million in Q3 2021 primarily relates to:

- unrealized gains on equity derivative contracts of $1.8 million and
- interest income of $0.2 million; partially offset by
- unrealized and realized operational foreign exchange losses of $0.6 million.

Other income of $0.2 million in Q3 2020 primarily related to:

- interest income of $0.1 million.

Adjusted EBITDA

Adjusted EBITDA was $54.6 million, or 19.6% of net revenue in Q3 2021, compared to $58.4 million, or 21.9% of net revenue in Q3 2020. The decrease in Adjusted EBITDA was primarily due to COVID-19 related health and safety measures and our continued investment in talent.

Stock-Based Compensation Expense

Stock-based compensation expense was $3.4 million in Q3 2021, compared to $1.1 million in Q3 2020.

Included in Q3 2021 is $1.7 million in expenses primarily related to the accounting for options under our new option plan, $0.1 million in expenses related to the accounting for options under our legacy option plan and $1.6 million in expenses related to the accounting for our deferred and restricted share units.

Included in Q3 2020 is $0.8 million in expenses primarily related to the accounting for options under our new option plan, $0.6 million in expenses related to the accounting for our deferred and restricted share units, partially offset by $0.3 million in recoveries related to the accounting for options under our legacy option plan.

Finance Expense

Finance expense increased by $0.2 million to $7.2 million in Q3 2021, compared to $7.0 million in Q3 2020.

Income Tax Expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for Q3 2021 and Q3 2020 were 26.7% and 26.8%, respectively.

Income tax expense was $11.8 million in Q3 2021, compared to $12.9 million in Q3 2020. The effective tax rates for Q3 2021 and Q3 2020 were 27.9% and 27.0%, respectively. The effective tax rates are driven by the proportionate amount of non-deductible stock-based compensation expense on equity settled plans relative to net income.

Net Income

Net income was $30.5 million in Q3 2021, compared to $34.8 million in Q3 2020. The decrease in net income is primarily due to COVID-19 related health and safety measures and our continued investment in talent.

Adjusted Net Income

Adjusted Net Income was $32.2 million in Q3 2021, compared to $35.7 million in Q3 2020, primarily due to the factors discussed above.

Adjusted Net Income per diluted share was $0.29 in Q3 2021, compared to $0.32 in Q3 2020.

Cash and cash equivalents

Cash and cash equivalents at the end of Q3 2021 totaled $174.0 million, compared to $95.7 million at the end of Q3 2020. The cash position at the end of Q3 2021 reflects the strength of our operating cash flow and the extension of inventory payment terms. During the quarter, we repaid the $100.0 million that was previously drawn from our Revolving Credit Facility in March 2020.

Inventory

Inventory at end of Q3 2021 was $138.1 million, compared to $123.0 million at the end of Q3 2020. Leaving us well-positioned for the remainder of the Fall/Winter Season.

Analysis of Results for YTD 2021 to YTD 2020

The following section provides an overview of our financial performance during YTD 2021 compared to YTD 2020.

Net Revenue

Net revenue decreased by 16.4% to $589.8 million compared to $705.2 million in YTD 2020. The decrease in net revenue was primarily due to the impact of COVID-19 and the associated temporary boutique closures in the first quarter, as well as ongoing severe occupancy restrictions and reduced boutique operating hours, partially offset by meaningful eCommerce revenue growth throughout the fiscal year-to-date.

Gross Profit

Gross profit decreased to $209.6 million compared to $300.6 million in YTD 2020. Gross profit margin was 35.5% compared to 42.6% in YTD 2020. The decrease in gross profit margin was primarily due to deleverage from reduced retail revenue, higher warehousing and distribution centre costs driven by the growth in our eCommerce business and higher markdowns from successful online sales events during boutique closures, partially offset by $15.6 million in rent abatements and $5.6 million of government payroll subsidies related to product, warehousing and distribution labour recognized during YTD 2021.

SG&A Expenses

SG&A expenses decreased by 0.4% to $178.4 million, compared to $179.0 million in YTD 2020. SG&A expenses were 30.2% of net revenue compared to 25.4% of net revenue in YTD 2020. Deleverage in SG&A expenses this year was primarily due to the loss of retail revenue and the implementation of additional health and safety measures, partially offset by $24.0 million of government payroll subsidies related to retail and support office labour recognized during YTD 2021.

Other Income

Other income was $1.4 million in YTD 2021, compared to $0.8 million in YTD 2020.

Other income of $1.4 million in YTD 2021 primarily relates to:

- unrealized gains on equity derivative contracts of $1.1 million and
- interest income of $0.8 million; partially offset by
- unrealized and realized operational foreign exchange losses of $0.7 million.

Other income of $0.8 million in YTD 2020 primarily related to:

- unrealized and realized operational foreign exchange gains of $0.2 million and
- interest income of $0.4 million.

Adjusted EBITDA

Adjusted EBITDA was $41.6 million, or 7.1% of net revenue in YTD 2021, compared to $130.2 million, or 18.5% of net revenue in YTD 2020. The decrease in Adjusted EBITDA was primarily due to the loss of net revenue from the impacts of COVID-19.

Stock-Based Compensation Expense

Stock-based compensation expense was $6.5 million in YTD 2021, compared to $5.4 million in YTD 2020.

Included in YTD 2021 is $3.9 million in expenses primarily related to the accounting for options under our new option plan, $0.5 million in expenses related to the accounting for options under our legacy option plan, and $2.1 million in expenses related to the accounting for our deferred and restricted share units.

Included in YTD 2020 is $3.4 million in expenses primarily related to the accounting for options under our new option plan, $0.8 million in expenses related to the accounting for options under our legacy option plan and $1.2 million in expenses related to the accounting for our deferred and restricted share units.

Finance Expense

Finance expense increased by $0.6 million to $22.0 million in YTD 2021, compared to $21.4 million in YTD 2020.

Income Tax Expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for YTD 2021 and YTD 2020 were 26.7% and 26.8%, respectively.

Income tax expense was $1.0 million in YTD 2021, compared to $26.7 million in YTD 2020 and the effective tax rates for YTD 2021 and YTD 2020 were 24.1% and 28.0%, respectively. The effective tax rates are driven by the proportionate amount of non-deductible stock-based compensation expense on equity settled plans relative to net income.

Net Income

Net income was $3.2 million in YTD 2021, compared to $68.9 million in YTD 2020. The decrease in net income was primarily due to the loss of net revenue from the impacts of COVID-19.

Adjusted Net Income

Adjusted Net Income was $8.4 million in YTD 2021, compared to $74.0 million in YTD 2020, primarily due to the factors discussed above.

Adjusted Net Income per diluted share was $0.07 in YTD 2021, compared to $0.66 in YTD 2020.

Summary of Consolidated Quarterly Results and Certain Performance Measures

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

	(in thousands of Canadian dollars, unless otherwise noted)							
	Fiscal 2021				Fiscal 2020			Fiscal 2019
	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks	Q4 13 weeks	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks	Q4 14 weeks
Consolidated Statements of Operations:								
Net revenue	$ 278,254	$ 200,155	$ 111,389	$ 275,430	$ 267,282	$ 241,178	$ 196,699	$ 259,050
Gross profit	126,083	70,436	13,061	102,841	119,595	95,427	85,561	93,847
SG&A	74,707	60,151	43,511	64,331	64,035	60,567	54,429	59,349
Income (loss) from operations	48,004	8,138	(31,429)	36,099	54,497	32,918	28,758	31,902
Adjusted EBITDA [6]	54,565	12,274	(25,232)	42,375	58,446	36,372	35,379	42,568
Net (loss) income	30,502	(874)	(26,471)	21,715	34,803	17,920	16,156	18,723
Adjusted Net Income (Loss)[6]	32,188	1,034	(24,872)	23,428	35,719	19,757	18,484	25,072
Percentage of Net Revenue:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	45.3%	35.2%	11.7%	37.3%	44.7%	39.6%	43.5%	36.2%
SG&A	26.8%	30.1%	39.1%	23.4%	24.0%	25.1%	27.7%	22.9%
Income (loss) from operations	17.3%	4.1%	(28.2%)	13.1%	20.4%	13.6%	14.6%	12.3%
Adjusted EBITDA [6]	19.6%	6.1%	(22.7%)	15.4%	21.9%	15.1%	18.0%	16.4%
Net (loss) income	11.0%	(0.4%)	(23.8%)	7.9%	13.0%	7.4%	8.2%	7.2%
Adjusted Net Income (Loss)[6]	11.6%	0.5%	(22.3%)	8.5%	13.4%	8.2%	9.4%	9.7%
Weighted average number of diluted shares (in thousands)	112,903	112,550	109,353	113,120	111,898	111,537	111,851	117,488
Adjusted Net Income (Loss) per Diluted Share	$ 0.29	$ 0.01	$ (0.23)	$ 0.21	$ 0.32	$ 0.18	$ 0.17	$ 0.21
Growth:								
Year-over-year net revenue growth (decline)	4.1%	(17.0%)	(43.4%)	6.3%	10.0%	17.4%	17.8%	17.9%
Comparable sales growth[6]	n/a	n/a	n/a	8.9%	5.1%	8.4%	7.9%	5.5%
Boutiques:								
Number of boutiques, beginning of period	97	97	96	94	93	92	91	92
New boutiques	5	-	1	2	1	1	1	-
Boutique closed due to mall redevelopment	(1)	-	-	-	-	-	-	-
Boutique repositioned into a flagship boutique[7]	-	-	-	-	-	-	-	(1)
Number of boutiques, end of period	101	97	97	96	94	93	92	91
Boutiques expanded or repositioned	2	1	-	-	2	-	1	1

Notes:

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

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

Liquidity and Capital Resources

Overview

Our principal uses of funds are for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities (as hereinafter defined), are expected to be sufficient to meet our future operating expenses, capital expenditures and

future debt service requirements. Our ability to fund operating expenses, capital expenditures and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Summary of Factors Affecting Performance” and “Risk Factors” of this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise. Historically, the funding for any such investments has come from cash flows from operating activities and/or our Credit Facilities.

Credit Facilities

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

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

A $100.0 million Revolving Credit Facility is also available as part of the Credit Facilities. During YTD 2021, $100.0 million of our Revolving Credit Facility was drawn and subsequently repaid. As at November 29, 2020, no advances were made under the Revolving Credit Facility. See “Contractual Obligations – Off-Balance Sheet Arrangements and Commitments” for letters of credit issued.

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

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

Cash Flows

The following table presents cash flows for the periods indicated.

(in thousands of Canadian dollars)	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Net cash generated from operating activities	$ 96,301	$ 108,921	$ 126,556	$ 174,178
Net cash used in financing activities	(116,389)	(29,846)	(28,983)	(143,788)
Net cash used in investing activities	(12,434)	(13,486)	(39,480)	(35,623)
Effect of exchange rate changes on cash and cash equivalents	(696)	91	(1,807)	2
(Decrease) increase in cash and cash equivalents	$ (33,218)	$ 65,680	$ 56,286	$ (5,231)

Analysis of Cash Flows for the Second Quarter and YTD

Cash Flows Generated from Operating Activities

For Q3 2021, cash flows generated from operating activities totaled $96.3 million, compared to $108.9 million in Q3 2020. This change was primarily attributable to a decrease in income from operations and higher use of working capital due to the timing of payments, partially offset by an increase in deferred revenue.

For YTD 2021, cash flows generated from operating activities totaled $126.6 million, compared to $174.2 million in YTD 2020. This change was primarily attributable to a decrease in income from operations, partially offset by a lower use of working capital primarily due to the extension of payment terms for payables, an increase in deferred revenue and a reduction in income taxes paid.

Cash Flows Used In Financing Activities

For Q3 2021, cash flows used in financing activities totaled $116.4 million, compared to $29.8 million in Q3 2020. Financing activities in Q3 2021 primarily relate to the repayment of $100.0 million of the Revolving Credit Facility and the repayment of principal on lease liabilities. Financing activities in Q3 2020 primarily relate to the repayment of $20.0 million of the Revolving Credit Facility and the repayment of principal on lease liabilities, partially offset by proceeds received from options exercised.

For YTD 2021, cash flows used in financing activities totaled $29.0 million, compared to $143.8 million used in YTD 2020. Financing activities in YTD 2021 primarily relate to the repayment of principal on lease liabilities and include the drawdown and subsequent repayment of $100.0 million of the Revolving Credit Facility. Financing activities in YTD 2020 primarily relate to our repurchase $107.0 million of subordinate voting shares for cancellation and the repayment of principal on lease liabilities, partially offset by proceeds received from options exercised. Financing activities in YTD 2020 also include the drawdown and subsequent repayment of $25.0 million of the Revolving Credit Facility

Cash Flows Used in Investing Activities

For Q3 2021, cash flows used in investing activities totaled $12.4 million, compared to $13.5 million in Q3 2020. Investing activities in Q3 2021 primarily relate to new boutiques, boutique expansions and repositions.

For YTD 2021, cash flows used in investing activities totaled $39.5 million, compared to $35.6 million in YTD 2020. Investing activities in YTD 2021 primarily relate to new boutiques and boutique expansions and repositions.

Free Cash Flow

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

(in thousands of Canadian dollars)	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Net cash generated from operating activities	$ 96,301	$ 108,921	$ 126,556	$ 174,178
Interest paid	1,365	1,086	3,761	3,458
Net cash used in investing activities	(12,434)	(13,486)	(39,480)	(35,623)
Repayments of principal on lease liabilities	(16,845)	(15,711)	(29,595)	(45,423)
Free cash flow	$ 68,387	$ 80,810	$ 61,242	$ 96,590

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at November 29, 2020.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Accounts payable and accrued liabilities	$ 134,385	$ -	$ -	$ 134,385
Assumed interest on Term Loan[8]	2,060	982	-	3,042
Term Loan[9]	-	75,000	-	75,000
Total contractual obligations	$ 136,445	$ 75,982	$ -	$ 212,427

Notes:

(8) Based on interest rate in effect as at November 29, 2020, and assuming no unscheduled principal payments are made prior to maturity.

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

Off-Balance Sheet Arrangements and Commitments

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at November 29, 2020, we had purchase obligations of $46.5 million, which represent commitments for fabric to be used during upcoming seasons, made in the normal course of business.

We enter into trade letters of credit to facilitate the international purchase of inventory. We also enter into standby letters of credit to secure certain of our obligations, including leases and duties related to import purchases. As at November 29, 2020, letters of credit totaling $43.0 million have been issued.

Other than those items disclosed here and elsewhere in this MD&A and our consolidated financial statements, we do not have any material off-balance sheet arrangements or commitments as at November 29, 2020.

Financial Instruments

From time to time, we use foreign currency forward contracts to manage our exposure to fluctuations with respect to the U.S. dollar for U.S. dollar merchandise purchases sold in Canada. The fair value of the forward contracts is included in prepaid expenses and other current assets or in accounts payable and accrued liabilities, depending on whether they represent assets or liabilities to us. Changes in the fair value of foreign currency forward contracts are recorded in net income. As at November 29, 2020, we did not have any outstanding foreign currency forward contracts.

We use equity derivative contracts to hedge the share price exposure on our cash-settled DSUs and RSUs. These contracts are not designated as hedging instruments for accounting purposes. Changes in the fair value of equity derivative contracts are recorded in net income. As at November 29, 2020, the equity derivative contracts had a positive fair value of $1.7 million.

Related Party Transactions

During Q3 2021 and YTD 2021, we made payments of $1.1 million and $3.1 million, respectively (Q3 2020 and YTD 2020 - $0.9 million and $2.9 million, respectively) for a lease of premises and management services and $0.3 million and $0.6 million, respectively (Q3 2020 and YTD 2020 - $0.2 million and $0.6 million, respectively) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. At November 29, 2020, $0.3 million was included in accounts payable and accrued liabilities (March 1, 2020 - $0.2 million).

Transactions with Key Management

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

(in thousands of Canadian dollars)	Q3 2021 13 weeks	Q3 2020 13 weeks	YTD 2021 39 weeks	YTD 2020 39 weeks
Salaries, directors' fees and short-term benefits	$ 1,248	$ 1,144	$ 3,305	$ 3,179
Stock-based compensation expense	1,468	816	2,308	2,192
	$ 2,716	$ 1,960	$ 5,613	$ 5,371

Critical Accounting Estimates and Judgments

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

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

Return Allowances

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

As a result of our temporary boutique closures due to COVID-19, we extended our return policies for purchases made in these boutiques. Our sales return allowance at Q3 2021 reflects the extended policy.

Gift Card Breakage

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

Valuation of Finished Goods Inventory

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

We periodically review our inventories and make provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, we accrue for inventory shrinkage for lost or stolen items based on historical trends from actual physical inventory counts. We did not recognize any additional inventory provisions in Q3 2021 and YTD 2021 due to COVID-19.

Impairment of Assets

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

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

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

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

The temporary closure of all our boutiques as a result of COVID-19 and the associated reduction in revenue during Q1 2021 were considered to be an indicator of impairment. During Q1 2021, we performed a recoverability assessment for our property and equipment, definite life intangible assets and right of use assets and determined that that there was no impairment.

During Q1 2021, we also performed an impairment test over goodwill and indefinite life intangible assets and as at May 31, 2020, we determined that there was no impairment.

Leases

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

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

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

Stock-Based Compensation Expense

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

Income Tax Expense

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

Outlook

Performance in our eCommerce channel has sustained its strong momentum in the fourth quarter to date. Severe capacity restrictions and the mandated closure of 39 boutiques in Ontario and Quebec continue to put pressure on our retail performance. We believe our eCommerce business is well-positioned to moderate the impact of these measures.

We continue to ensure income continuity for employees impacted by temporary boutique closures through a combination of company support and where applicable, government wage benefits direct to employees. In addition, we expect to incur ongoing operating expenses of approximately $5 million per quarter, related to protocols to ensure the health and safety of our people, clients and communities.

Our strong financial position, with $274 million of liquidity in place at the end of the third quarter, enables us to weather further uncertainty while continuing to take advantage of unparalleled opportunities. We will continue to strategically invest in critical infrastructure across our people, processes, and technology.

We continue to expect capital expenditures for Fiscal 2021 to be approximately $30 to $35 million.

Looking beyond this pandemic we are well positioned for meaningful growth, capitalizing on the unprecedented opportunities ahead.

Risk Factors

For a detailed description of risk factors associated with the Company, including COVID-19 risks, refer to the "Risk Factors" section of the Company's AIF, which is available on SEDAR at *www.sedar.com*.

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

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

Foreign Exchange Risk

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

Interest Rate Risk

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

Credit Risk

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

Liquidity Risk

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

Equity Price Risk

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

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting in Q3 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Current Share Information

As of January 12, 2021, an aggregate of 85,057,992 subordinate voting shares, 24,537,349 multiple voting shares and no preferred shares are issued and outstanding. All of the issued and outstanding multiple voting shares are, directly or indirectly, held or controlled by the principal shareholders. As of January 12, 2021, an aggregate of 8,607,442 options to acquire subordinate voting shares are outstanding.

Additional Information

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