ARITZIA

Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Third Quarter Ended November 27, 2022

January 11, 2023

The following Management's Discussion and Analysis ("MD&A") dated January 11, 2023 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 13-week and 39-week periods ended November 27, 2022. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2023 and YTD 2023 (as hereinafter defined) and the Company's audited consolidated financial statements and accompanying notes for fiscal 2022 (as hereinafter defined) and the related MD&A.

FORWARD-LOOKING INFORMATION

Certain statements made in this MD&A may constitute forward-looking information under applicable securities laws. Forward-looking statements are based on information currently available to management and on estimates and assumptions made by management regarding, among other things, general economic and geopolitical conditions and the competitive environment within the retail industry, in light of its experience and perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate and reasonable in the circumstances. These statements may relate to our future financial outlook, our plans relating to our new distribution facility, investments in our physical and digital infrastructure and the anticipated results therefrom, our expectations with respect to liquidity, our continued focus on driving digital innovation, eCommerce growth and omni-channel capabilities, our expectations with respect to our inventory position and normalized markdowns, our investment in talent and technology, our ability to maintain momentum in our business and advance our strategic growth levers, our approach to boutique growth, the Company's response to supply chain disruptions, geopolitical risks, inflationary pressures and labour shortages.

Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "targets", "expects", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or positive or negative variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent our expectations, estimates and projections regarding future events or circumstances.

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 or the duration of any such limitations or restrictions; (b) the COVID-19-related impacts on Aritzia's business, operations, labour force, supply chain performance and growth strategies; (c) Aritzia's 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, commodity market, inflation, interest rates, global supply chains, operational, and liquidity risks generally; (f) geopolitical events; and (g) other risks inherent to Aritzia's business and/or factors beyond its 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, the fiscal 2022 MD&A and the Company's annual information form for fiscal 2022 (the "AIF"). A copy of the fiscal 2022 MD&A and 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 this MD&A, the fiscal 2022 MD&A and 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, obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

BASIS OF PRESENTATION

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

All references in this MD&A to “Q3 2023” are to our 13-week period ended November 27, 2022, and to “Q3 2022” are to our 13-week period ended November 28, 2021, to "YTD 2023" are to our 39-week period ended November 27, 2022, to "YTD 2022" are to our 39-week period ended November 28, 2021. All references in this MD&A to “fiscal 2023” are to our 52-week period ending February 26, 2023, to “fiscal 2022” are to our 52-week period ended February 27, 2022, to "fiscal 2021" are to the 52-week period ended February 28, 2021 and to "fiscal 2020" are to the 52-week period ended March 1, 2020.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2023 and YTD 2023 and this MD&A were authorized for issue by the Audit Committee on behalf of the Company’s Board of Directors (the "Board of Directors").

Documents referenced herein are not incorporated by reference into this MD&A, unless such incorporation by reference is explicit.

OVERVIEW

Aritzia is a vertically integrated design house with an innovative global platform, home to an extensive portfolio of exclusive brands for every function and individual aesthetic. We’re about good design, quality materials and timeless style that endures and inspires — all with the well-being of our People and Planet in mind. We call this Everyday Luxury.

Founded in 1984, in Vancouver, Canada, we create and curate products that are both beautiful and beautifully made, cultivate aspirational environments, offer engaging service that delights, and connect through captivating communications. We pride ourselves on providing immersive and highly personal shopping experiences at aritzia.com and in our 100+ boutiques throughout North America to everyone, everywhere.

Everyday Luxury. To Elevate Your World.™

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

RECENT EVENTS

Normal Course Issuer Bid and Automatic Share Purchase Plan

On January 12, 2022, the Company announced the commencement of a normal course issuer bid (the "NCIB") to repurchase and cancel up to 3,732,725 of its subordinate voting shares, representing approximately 5% of the public float of 74,654,507, over the 12-month period commencing January 17, 2022 and ending January 16, 2023.

On May 18, 2022, the Company entered into an automatic share purchase plan (the “ASPP”) with a designated broker for the purpose of permitting the Company to purchase its subordinate voting shares under the NCIB during self-imposed blackout periods. In relation to the secondary offering announced by the Company on November 14, 2022, the ASPP was automatically terminated, pursuant to its terms.

Between January 17, 2022 and January 10, 2023, the Company repurchased a total of 1,783,780 subordinate voting shares for cancellation at an average price of $38.77 per subordinate voting share for total cash consideration of $69.2 million.

Investor Day 2022 Fiscal 2027 Strategic and Financial Plan, Powering Stronger

On October 27, 2022, the Company announced its fiscal 2027 strategic and financial plan, Powering Stronger, and hosted an Investor Day at its Support Office in Vancouver, Canada. As part of the Powering Stronger plan, the Company intends to execute on the following three strategic levers:

- Geographic expansion: The Company plans to continue opening and expanding boutiques, resulting in annual square footage growth. The Company will capitalize on premier real estate for new locations, continuing to elevate its boutique design and deliver exceptional experiences for its clients.
- eCommerce acceleration: Having grown its eCommerce business by 150% from fiscal 2020 to fiscal 2022, the Company will further fuel its growth by delivering eCommerce 2.0, connecting clients to tailored product discovery, creative innovation, and intuitive experiences. In addition to elevating the existing web platform, Aritzia will create new digital platforms, such as a client app.
- Increased brand awareness: The Company plans to build and execute on its Everyday Luxury experience, propelling increased brand awareness, new client acquisition, and loyalty. Aritzia will leverage the power of influence to build a greater following and community by amplifying clients' voices and augmenting their social media presence through strategic marketing.

These strategic levers are underpinned by the Company's unique strengths that have driven its 38-year track record of success, including: high-quality, beautifully designed product; premier real estate; a proprietary retail model; a strong digital model; talented people and high-performance culture; best-in-class infrastructure; and community responsibility. For further details, see the Company's press release dated October 27, 2022, "Aritzia Presents its Fiscal 2027 Strategic and Financial Plan, Powering Stronger", which is available on SEDAR at www.sedar.com under the Company's profile and on our website at investors.aritzia.com.

Completion of Secondary Offering

On November 14, 2022, the Company announced a secondary offering (the “2022 Secondary Offering”) on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain entities owned and/or controlled, directly or indirectly, by Brian Hill, Founder and Executive Chair of Aritzia, or Brian Hill and his immediate family (collectively, the “Selling Shareholders”). The 2022 Secondary Offering of 1,500,000 subordinate voting shares raised gross proceeds of $77.4 million for the Selling Shareholders, at a price of $51.60 per subordinate voting share and was completed on November 30, 2022. The Company did not receive any proceeds from the 2022 Secondary Offering. As part of the 2022 Secondary Offering, during the 39-week period ended November 27, 2022, the Selling Shareholders exchanged 97,100 of their multiple voting shares for subordinate voting shares. On November 28, 2022, the Selling Shareholders exchanged an additional 1,402,900 of their multiple voting shares for subordinate voting shares. Following the 2022 Secondary Offering, Brian Hill remains the Company’s largest shareholder with an approximately 18.5% equity interest. Underwriting fees were paid by the Selling Shareholders, and other expenses related to the 2022 Secondary Offering of approximately $0.5 million will be paid by the Company.

COVID-19 PANDEMIC

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

Since the start of the pandemic, the Company experienced intermittent temporary boutique closures and capacity restrictions as a result of government and health authority guidance. In the first quarter of fiscal 2022, 34 locations in Ontario, Quebec and Nova Scotia were temporarily closed for approximately two-thirds of the quarter. As at July 12, 2021, all of the Company's boutiques had reopened. The Company's operations continue to be indirectly impacted by the COVID-19 pandemic through the trailing effects of the global supply chain disruptions.

The extent of the impact of COVID-19 on future periods will depend on future developments, including the duration or resurgence of the pandemic, the related government responses and the impact on the global economy, which are uncertain and cannot be predicted. Aritzia believes its eCommerce business is well-positioned to moderate these impacts.

See also the "Forward-Looking Information" and "Risk Factors" sections of this MD&A, the fiscal 2022 MD&A and in our AIF.

FINANCIAL HIGHLIGHTS

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

Q3 2023

- **Net revenue** increased 37.8% to $624.6 million from Q3 2022, achieving comparable sales growth[(1)] of 22.8% compared to Q3 2022
- **United States net revenue** increased 57.8% to $313.5 million from Q3 2022, comprising 50.2% of net revenue in Q3 2023
- **Retail net revenue** increased 38.6% to $423.2 million from Q3 2022
- **eCommerce net revenue** increased 36.1% to $201.4 million from Q3 2022, comprising 32.2% of net revenue in Q3 2023
- **Gross profit margin**[(1)] decreased 310 bps to 43.3% from 46.4% in Q3 2022
- **Net income** increased 8.9% to $70.7 million from Q3 2022
- **Adjusted EBITDA**[(1)] increased 9.5% to $119.6 million from Q3 2022
- **Net income per diluted share** of $0.61 per share, compared to $0.56 per share in Q3 2022
- **Adjusted Net Income**[(1)] **per Diluted Share** of $0.67 per share, compared to $0.61 per share in Q3 2022

YTD 2023

- **Net revenue** increased 48.3% to $1.6 billion, compared to $1.1 billion in YTD 2022
- **United States net revenue** increased 70.6% to $783.5 million from YTD 2022, comprising 50.3% of net revenue in YTD 2023
- **Retail net revenue** increased 59.1% to $1.1 billion from YTD 2022
- **eCommerce net revenue** increased 29.6% to $495.4 million from YTD 2022, comprising 31.8% of net revenues in YTD 2023
- **Gross profit margin**[(1)] decreased 220 bps to 43.1% from 45.3% in YTD 2022
- **Net income** increased 22.5% to $150.3 million from YTD 2022
- **Adjusted EBITDA**[(1)] increased 21.9% to $271.8 million from YTD 2022
- **Net income per diluted share** of $1.30 per share, compared to $1.06 per share in YTD 2022
- **Adjusted Net Income** [(1)] **per Diluted Share** of $1.46 per share, compared to $1.19 per share in YTD 2022

[(1)] See the sections below entitled "How We Assess the Performance of our Business", "Selected Consolidated Financial Information" and "Non-IFRS Measures and Retail Industry Metrics" for further details concerning gross profit margin, comparable sales growth, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share including definitions and reconciliations of each non-IFRS financial measure to the relevant reported IFRS financial measure. Non-IFRS financial measures do not have a standardized meaning under GAAP, which is used to prepare the Company's financial statements and might not be comparable to similar financial measures presented by other entities.

OUTLOOK

A discussion of management's expectations as to the Company's outlook for fiscal 2023 is contained in the Company's press release dated January 11, 2023 under the heading "Outlook". In addition, a discussion of the Company's long-term financial plan is contained in the Company's press release dated October 27, 2022, "Aritzia Presents its Fiscal 2027 Strategic and Financial Plan, Powering Stronger". These press releases are available on SEDAR at www.sedar.com under the Company's profile and on our website at investors.aritzia.com.

SELECTED FINANCIAL INFORMATION

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below for Q3 2023, Q3 2022, YTD 2023 and YTD 2022 is unaudited.

Selected Consolidated Financial Information				
(in thousands of Canadian dollars, unless otherwise noted)	**Q3 2023 13 Weeks**	**Q3 2022 13 Weeks**	**YTD 2023 39 Weeks**	**YTD 2022 39 Weeks**
Financial Summary:				
Net revenue	$ 624,615	$ 453,323	$ 1,558,048	$ 1,050,308
Cost of goods sold	353,952	243,181	886,216	574,862
Gross profit	270,663	210,142	671,832	475,446
Operating expenses				
Selling, general and administrative	163,737	110,084	431,170	272,581
Stock-based compensation expense	11,558	9,109	21,212	20,406
Income from operations	95,368	90,949	219,450	182,459
Finance expense	9,056	6,160	21,762	19,110
Other expense (income)	(11,994)	(6,218)	(11,968)	(9,523)
Income before income taxes	98,306	91,007	209,656	172,872
Income tax expense	27,578	26,066	59,406	50,180
Net income	$ 70,728	$ 64,941	$ 150,250	$ 122,692
Net income per diluted share	$ 0.61	$ 0.56	$ 1.30	$ 1.06
Adjusted EBITDA[(2)]	$ 119,618	$ 109,289	$ 271,827	$ 223,082
Adjusted Net Income [(2)]	$ 76,610	$ 71,199	$ 168,100	$ 137,261
Adjusted Net Income [(2)] per Diluted Share	$ 0.67	$ 0.61	$ 1.46	$ 1.19
Weighted average number of diluted shares outstanding (thousands)	115,154	116,140	115,252	115,402
Cash and cash equivalents	$ 131,898	$ 305,932	$ 131,898	$ 305,932
Capital cash expenditures (net of proceeds from lease incentives)[(2)]	$ (26,362)	$ (20,318)	$ (73,547)	$ (36,173)
Free cash flow[(2)]	$ 68,297	$ 169,704	$ (70,463)	$ 258,984
Percentage of Net Revenue:				
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	56.7%	53.6%	56.9%	54.7%
Gross profit	43.3%	46.4%	43.1%	45.3%
Operating expenses				
Selling, general and administrative	26.2%	24.3%	27.7%	26.0%
Stock-based compensation expense	1.9%	2.0%	1.4%	1.9%
Income from operations	15.3%	20.1%	14.1%	17.4%
Finance expense	1.4%	1.4%	1.4%	1.8%
Other expense (income)	(1.9)%	(1.4)%	(0.8)%	(0.9)%
Income before income taxes	15.7%	20.1%	13.5%	16.5%
Income tax expense	4.4%	5.7%	3.8%	4.8%
Net income	11.3%	14.3%	9.6%	11.7%

Adjusted EBITDA[(2)]	19.2%	24.1%	17.4%	21.2%
Adjusted Net Income [(2)]	12.3%	15.7%	10.8%	13.1%
Other Performance Metrics:				
Year-over-year net revenue growth	37.8%	62.9%	48.3%	78.1%
Comparable sales growth[(2)]	22.8%	n/a	26.3%	n/a
Boutiques:				
Number of boutiques, end of period	113	105	113	105
New boutiques	—	1	6	4
Pop-up boutique converted to a permanent boutique	1	—	1	—
Boutiques expanded or repositioned	4	4	4	5

[(2)] Please see “How We Assess the Performance of Our Business”, "Selected Consolidated Financial Information" and "Non-IFRS Measures and Retail Industry Metrics" sections of this MD&A for further details on these financial and operating measures.

The following table provides a reconciliation of net income to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share for the periods indicated.

Reconciliation to Non-IFRS Financial Measures

(in thousands of Canadian dollars, unless otherwise noted)	Q3 2023 13 Weeks	Q3 2022 13 Weeks	YTD 2023 39 Weeks	YTD 2022 39 Weeks
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:				
Net income	$ 70,728	$ 64,941	$ 150,250	$ 122,692
Depreciation and amortization	13,434	11,238	38,238	32,459
Depreciation on right-of-use assets	21,204	17,461	57,883	50,465
Finance expense	9,056	6,160	21,762	19,110
Income tax expense	27,578	26,066	59,406	50,180
EBITDA	142,000	125,866	327,539	274,906
Adjustments to EBITDA:				
Stock-based compensation expense	11,558	9,109	21,212	20,406
Rent impact from IFRS 16, Leases[(3)]	(28,278)	(22,862)	(76,012)	(67,109)
Unrealized loss (gain) on equity derivative contracts	(4,793)	(6,950)	(43)	(12,186)
Realized loss (gain) on equity derivative contracts	(1,387)	—	(1,387)	—
Fair value adjustment of non-controlling interest ("NCI") in exchangeable shares liability	—	2,000	—	2,000
Fair value adjustment for inventory acquired in CYC	—	1,902	—	1,902
Acquisition costs of CYC	—	224	—	2,633
Secondary Offering transaction costs	518	—	518	530
Adjusted EBITDA	$ 119,618	$ 109,289	$ 271,827	$ 223,082
Adjusted EBITDA as a percentage of net revenue	19.2%	24.1%	17.4%	21.2%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	$ 70,728	$ 64,941	$ 150,250	$ 122,692
Adjustments to net income:				
Stock-based compensation expense	11,558	9,109	21,212	20,406
Unrealized loss (gain) on equity derivative contracts	(4,793)	(6,950)	(43)	(12,186)
Realized loss (gain) on equity derivative contracts	(1,387)	—	(1,387)	—
Fair value adjustment of NCI in exchangeable shares liability	—	2,000	—	2,000
Fair value adjustment for inventory acquired in CYC	—	1,902	—	1,902
Acquisition costs of CYC	—	224	—	2,633
Secondary Offering transaction costs	518	—	518	530
Related tax effects	(14)	(27)	(2,450)	(716)
Adjusted Net Income	$ 76,610	$ 71,199	$ 168,100	$ 137,261
Adjusted Net Income as a percentage of net revenue	12.3%	15.7%	10.8%	13.1%
Weighted average number of diluted shares outstanding (thousands)	115,154	116,140	115,252	115,402
Adjusted Net Income per Diluted Share	$ 0.67	$ 0.61	$ 1.46	$ 1.19

Note (3) Rent Impact from IFRS 16, Leases	Q3 2023 13 Weeks	Q3 2022 13 Weeks	YTD 2023 39 Weeks	YTD 2022 39 Weeks
Depreciation on right-of-use assets, excluding fair value adjustments	$ (21,071)	$ (17,238)	$ (57,484)	$ (50,242)
Interest expense on lease liabilities	(7,207)	(5,624)	(18,528)	(16,867)
Rent impact from IFRS 16, Leases	$ (28,278)	$ (22,862)	$ (76,012)	$ (67,109)

The following table reconciles cash used in investing activities to capital cash expenditures (net of proceeds from lease incentives) for the periods indicated.

(in thousands of Canadian dollars)	Q3 2023 13 Weeks	Q3 2022 13 Weeks	YTD 2023 39 Weeks	YTD 2022 39 Weeks
Reconciliation of Cash Used in Investing Activities to Capital Cash Expenditures (Net of Proceeds From Lease Incentives):				
Cash used in investing activities	$ (32,401)	$ (22,336)	$ (89,973)	$ (78,842)
Acquisition of CYC, net of cash acquired	—	—	—	32,555
Contingent consideration payout, net relating to the acquisition of CYC	—	—	5,625	—
Proceeds from lease incentives	6,039	2,018	10,801	10,114
Capital cash expenditures (net of proceeds from lease incentives)	$ (26,362)	$ (20,318)	$ (73,547)	$ (36,173)

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

(in thousands of Canadian dollars)	Q3 2023 13 Weeks	Q3 2022[(4)] 13 Weeks	YTD 2023 39 Weeks	YTD 2022[(4)] 39 Weeks
Reconciliation of Net Cash Generated from Operating Activities to Free Cash Flow:				
Net cash (used in) generated from operating activities	$ 114,732	$ 207,453	$ 64,729	$ 337,620
Interest paid on credit facilities	1,849	525	3,233	1,878
Proceeds from lease incentives	6,039	2,018	10,801	10,114
Repayments of principal on lease liabilities	(21,922)	(17,956)	(64,878)	(44,341)
Purchase of property, equipment and intangible assets	(32,401)	(22,336)	(84,348)	(46,287)
Free cash flow	$ 68,297	$ 169,704	$ (70,463)	$ 258,984

[(4)] Certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications have no effect on the reported results of operations. A reclassification has been made for proceeds from lease incentives from cash generated from operating activities to net cash used in financing activities. This change in classification does not affect previously reported free cash flows.

Selected Consolidated Financial Position Data

(in thousands of Canadian dollars)	As at November 27, 2022	As at February 27, 2022
Total assets	$ 1,742,639	$ 1,424,586
Total non-current liabilities	$ 587,981	$ 506,450

SUMMARY OF FACTORS AFFECTING PERFORMANCE

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, the fiscal 2022 MD&A and in our AIF.

Our Brand and Products

Our exclusive fashion brands offer a strategic mix of exclusive brands that have been thoughtfully conceived, created, and developed. We believe that a key area of differentiation for us is that we design apparel and accessories for our collection of exclusive brands. Our multi-brand strategy gives us control over our products and provides us with the flexibility to optimize our brand mix as needed to address changes in client demand and fashion preferences, which has been critical to our growth while also reducing risk.

Our exclusive brands are supported by in-house design teams focused on creating beautiful, quality products that align with the unique positioning, look and feel of each brand. Each of our exclusive brands has its own vision and distinct aesthetic point of view. As a group, they are united by an unwavering commitment to superior fabrics, meticulous construction and relevant, effortless design.

Exclusive brands currently represent approximately 95% of Aritzia’s net revenue. Our broad product assortment includes t-shirts, blouses, sweaters, jackets, coats, pants, shorts, skirts, dresses, denim, intimates, swimwear, accessories, and men’s wear (resulting from our acquisition of CYC) for each season. We maintain a flexible mix of historically successful items and new seasonal styles. Our changing product mix is a blended reflection of client demands and fashion trends. This strategic mix helps us to drive client conversion by delivering fashion must-haves, while still generating a meaningful proportion of revenue from our fashion essentials. We complement our exclusive product mix with a strategically chosen selection of premium denim, accessories and footwear from leading contemporary third-party brands. Our expansive and diverse range of women’s fashion apparel and accessories addresses a broad range of style preferences and lifestyle requirements for our clients, producing strong and enduring client loyalty.

Product Strategy

We control the design, merchandise planning, sourcing, production and retail functions of our exclusive brands and complement this with third-party brands as appropriate. This strategy allows us to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place. Product design and quality are meticulously evaluated and controlled by us, from fabrics to trims, and styling to fit. In fiscal 2021 we implemented our Product Lifecycle Management system to further support our product strategy and processes. This system has allowed us to consolidate and manage all of our product development data and tools into a single place and improved our focus on innovation and product quality, increase speed to market where appropriate, and ultimately has optimized manufacturing costs.

Creative Development

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

Merchandise Planning

Our demand-driven merchandise planning, buying and inventory strategies have been developed and refined for more than three decades, and are designed to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place.

Each year we develop product in two or four seasonal collections for our exclusive brands. We generate a meaningful proportion of revenue from our proven sellers while driving excitement through new seasonal product assortment. We generally buy in initial quantities during the start of the season that allow us to gauge client demand

and follow up with larger orders when proven successful to maximize revenue. We analyze sales data in order to make inventory adjustments and to respond to the latest trends.

Our inventory management processes and systems provide us with the ability to optimize inventory across our channels to ensure that each boutique and aritzia.com is merchandised with products that resonate with local preferences. By actively monitoring sell-through rates and managing the mix of product categories in our boutiques and aritzia.com, we are able to respond to emerging trends in a timely manner, minimize our dependence on any particular category, style or fabrication and preserve a balanced, coordinated presentation of merchandise within each boutique while being able to offer our client the entire assortment online. We believe that our disciplined merchandise planning strategy allows us to optimize inventory levels and maximize full-price sales.

Sourcing and Production

We contract and maintain direct relationships with a diversified base of independent suppliers and manufacturers for our exclusive brands who provide us with the flexibility to source high quality materials and products at competitive costs. We believe that our approach of sourcing a majority of our raw materials and working directly with suppliers and manufacturers enhances our ability to create beautiful and high-quality products in a timely manner.

We source the majority of our raw materials directly from mills, trim suppliers and manufacturers, located primarily in China, Italy, Japan, South Korea, and Taiwan which we believe to be best in class that uphold our standards for quality, lead time and cost. Our finished goods are sourced from manufacturers located primarily in Cambodia, China, Peru, Portugal, Romania, Sri Lanka and Vietnam. We continue to monitor and diversify our supplier base, taking into consideration the geopolitical and economic environment to mitigate risk. Capacity planning with our manufacturers is done at the beginning of the season to ensure flexibility. We engage third parties to inspect our manufacturers' factories to ensure quality control and engage independent expert service providers to conduct factory audits for compliance with local laws and regulations and global standards. We have implemented and enforce a Supplier Code of Conduct and initiatives to increase transparency with respect to the origins of our raw materials.

Boutiques

We have developed our boutique network in a measured and disciplined manner. We have a portfolio of boutiques situated in premier real estate locations in high performing retail malls and high streets in North America. We take into account the total value of a new boutique opening, which includes both boutique sales and the incremental lift to eCommerce. Our strong boutique sales productivity continues to make us a sought-after tenant for top quality locations in premier shopping destinations. In addition to opening new Aritzia and exclusive brand boutiques (e.g., Wilfred, Babaton, Super World, and TNA), we generate attractive returns on capital by enhancing elements of our existing boutiques (including footprint, layout and assortment) through carefully considered boutique expansions and repositions. We continue to elevate our boutique design by delivering a fully immersive experience including enhancing the sensory experience by adding A-OK cafes in select boutiques.

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

The following table summarizes the change in Aritzia's boutique count for the periods indicated (excluding CYC boutiques).

	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Number of boutiques, beginning of period	112	104	106	101
New boutiques	—	1	6	4
Pop-up boutique converted to permanent boutique	1	—	1	—
Number of boutiques, end of period	113	105	113	105
Boutiques expanded or repositioned	4	4	4	5

In addition, CYC had four boutiques as at November 27, 2022.

eCommerce Growth

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

eCommerce business, and we will further fuel eCommerce growth by delivering eCommerce 2.0, featuring tailored product discovery, creative innovation, and intuitive experiences. We will connect customers to Everyday Luxury, offering beautiful product, tailored experiences, and endless inspiration to be a leading eCommerce business.

The strategy behind Aritzia eCommerce 2.0 has three components, which is our value proposition that highlights our unique competitive advantage:

- *We will deliver tailored product discovery:* We will enable customers to discover all we have to offer, while personalizing suggestions for their individual taste, style and preferences. We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our clients. This includes optimizing our online operations to enhance personalization which we believe will drive higher conversion and client loyalty. We have begun to customize merchandising and content experience based on geography and climate and will continue to evolve personalized experiences. Aritzia.com showcases our entire product assortment, and our brands are designed for a segment of our overall customer base. We will inspire the customer to discover our diverse assortment, while content is tailored to their individual style and preferences to keep them engaged.

- *We will deliver creative innovation:* With an emphasis on form, creative innovation keeps our eCommerce experience at the forefront of cool. This extends to service, operations and technology. We will continuously raise the bar across both form and function. Whether it be aspirational site design, how we merchandise, captivating content and communications, or coming up with a creative technology solution – we will redefine the norms.

- *We will deliver an intuitive experience:* Our eCommerce platform will provide our clients further ease of use at all touchpoints. A word that is often used to describe Everyday Luxury is effortless, and this is the digital interpretation. We will offer a seamless, integrated, and highly shoppable experience. Aritzia is focused on improving the digital experience across all devices (e.g., desktop, mobile, tablet) to work towards making shopping frictionless. We continue to implement a number of core optimizations including user reviews and fit guides, enhancing site search functionality, landing page templates, and numerous checkout improvements to reduce client friction. The core areas of our client's digital journey including discovery, evaluating, and purchase are continuously improved resulting in increased conversion rate and average order value. We have also re-set our optimization program, embedding a culture of test and learn on how we go to market with new features and capabilities. For example, we have tested the optimal placement of visual size and fit guides on our category and product pages.

We will execute on our eCommerce roadmap: We will elevate our existing web platform and create new digital platforms. Our roadmap includes key initiatives such as brand new creative, an upgrade on our technology ecosystem, a customer app and enhanced personalization.

Distribution Facilities

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

Our distribution centres include a 223,000 square foot facility in New Westminster, British Columbia, a 150,000 square foot third-party facility in Mississauga, Ontario, and a 240,000 square foot third-party facility in Columbus, Ohio. We continue to upgrade our warehouse management system to enhance our supply chain system flexibility and scalability. In fiscal 2022, we started retro-fitting work in our New Westminster, British Columbia and Columbus, Ohio distribution centres in order to expand capability and capacity to accommodate the surge of eCommerce growth without having to add more space. These expansions support both our retail and eCommerce businesses with added capacity to handle higher levels of throughput. Our current facilities are set up to flexibly manage multi-channel and omni-channel demands, as our business continues to grow.

In fiscal 2022 we broke ground on a new facility that we will be operating in Vaughan, Ontario. This new facility will be in-sourced and will replace our existing 150,000 square feet distribution centre operated by a third-party logistics provider with a new 552,300 square feet distribution centre operated by Aritzia. It is anticipated that the new facility will be operational by summer 2023.

Systems and Infrastructure

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

Enterprise Management

Across the organization, we use SAP, a sophisticated enterprise resource planning system, to provide business process support and intelligence across customer, marketing, Concierge, merchandise planning, inventory management, production, costing, order management, finance, accounting, reporting and analysis. As the backbone of our infrastructure, this system has the flexibility to support global and multi-channel expansion.

Clients – Omni Project

Our Omni Project builds on the foundation of our point-of-sale system and our investment in digital selling tools to enable omni-channel capabilities such as store inventory visibility, buy online, ship from store and buy online, pickup in store. The project includes multiple work streams spanning a store order fulfillment solution, the physical optimization of our backroom spaces, foundational order sourcing technology, and enhancements to our digital customer experience.

- Store Inventory Visibility – Launched in fiscal 2022, this functionality enhances the client experience on aritzia.com by providing visibility of product availability in stores. This initiative drives cross-channel shopping behavior and reduces contacts to our Concierge team by enabling customers to self-serve on common product availability related questions.
- Buy Online, Ship From Store – Launching in 2023, along with foundational systems to enable future omni channel capabilities. This new capability introduces store inventory online, helping ensure our full product assortment is available on aritzia.com. It also enables strategic targeting of inventory across our network of boutiques and minimizes delivery time to our clients.
- Buy Online, Pickup In Store – Launching in 2023, this functionality provides clients with the option to pick up their online order in store. Building on Store Inventory Visibility, this capability further integrates the online and in-store experiences leveraging the exceptional service in our boutiques to deliver an elevated, yet convenient experience.

We are also focused on improving the availability of fulfillment data and analytics. We believe that reporting optimizations and visibility into key performance indicators will help to set our boutique teams up to maintain accurate inventory and monitor performance on key fulfillment metrics.

Concierge

Launched in fiscal 2020, this integrated solution enhances our client experience throughout the lifecycle of their purchase. It is also a revenue generating opportunity as we personalize each client interaction through our client care centre. This platform was instrumental in supporting the significant increase in client care engagements during fiscal 2021 as a direct result of the surge in eCommerce volumes.

Boutiques

We utilize Oracle Retail as our point-of-sale system to facilitate client transactions and fulfill boutique-initiated orders across our network to provide a seamless shopping experience for our clients. We are currently working on a fulfillment app which will allow boutiques to fulfil eCommerce orders as well as enable buy online and pick up in-store capabilities.

eCommerce

aritzia.com is powered by Salesforce Commerce Cloud since its launch in fiscal 2013. With our eCommerce business growing, we continue to invest in our digital capabilities. In fiscal 2022 we launched store inventory visibility, digital e-gift cards, personalized merchandising, and design enhancements and improvements throughout the client journey. We have seen a positive impact to our retail sales with the launch of store inventory visibility, as well as decreased call volume to our Concierge team regarding store inventory. Digital gift card adoption was immediate during holiday 2021 as clients received access to the gifts cards immediately and we reduced operational costs as well as reduced packaging. We saw improvements to our conversion rate driven by our thoughtful merchandising strategy, prioritizing relevant styles to shoppers based on our unique point of view and

where clients live. Our branding and design evolution has also manifested itself online, creating a compelling and elevated look and feel that is consistent with our brand objectives.

Going forward, we continue to evolve and refine our omni-channel capabilities to further elevate our clients' shopping experience, to provide a centralized view of inventory and unlock order fulfillment capabilities to improve cross channel activities such as, buy online, ship from store and buy online, pickup in store. We are also directing resources with a renewed focus on digital marketing and increasing the use of data analytics to improve online conversion and client loyalty through increased personalization.

Product

We utilize SAP technologies to manage our enterprise inventory system of record. In fiscal 2021, we successfully completed and implemented Centric 8 PLM Software, a new Product Lifecycle Management System ("PLM"), to support our ongoing product expansion strategy. Supporting our Creative, Technical Development and Manufacturing teams, our PLM application is used to manage all of the data and support all of the processes to bring a product to market (from concept to commercialization). This system consolidates and centralizes all of our product development data and tools to improve our focus on innovation and product quality, increase speed to market where appropriate, and ultimately optimize manufacturing costs.

Distribution and Logistics

Blue Yonder is the primary system used in our distribution centre in New Westminster, British Columbia to support our fulfillment processes. We will also be using Blue Yonder in our new distribution centre in Vaughan, Ontario when it is operational. We continue to upgrade our warehouse management system to enhance our supply chain system flexibility and scalability to support our boutique and eCommerce growth initiatives.

Business Support

We utilize Workday as our human resource information system. This integrated platform supports strategic human capital decisions for our growing business.

In fiscal 2021, we established a new Data & Analytics function to maximize the value of our data. Leveraging our existing investments and the capability of Google Cloud, we are building capacity across our people, processes and technology to further enhance efficiencies and decision making in our operations.

We continue to migrate our workloads to the cloud in order to scale our technology with our growing business and to provide greater resiliency and flexibility to support the business.

Furthermore, during COVID-19, we were able to effectively support the move to a flexible, remote business model; supporting initiatives and leveraging our systems in different ways. We continue to invest in identity and access management programs including multi-factor authentication technologies, and third-party company engagements to proactively monitor security, conduct penetration testing, and support compliance validation.

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

Environment, Social & Governance ("ESG")

Aritzia recognizes that as a leader in the fashion industry and for our long-term success, we have a responsibility to continue to accelerate our ESG commitments and performance. To deliver Everyday Luxury, for today and tomorrow, we will strengthen the environmental and social contributions that amplify the positive impact Aritzia is making across our operations and wider value chain.

Our ESG priorities are distributed across our value chain from raw material sourcing and third-party manufacturing, our owned and directly operated boutiques, offices and distribution centres, through to our products' use and end of life impacts. We have prioritized efforts based on our material impacts and risks in line with The Sustainability Accounting Standards Board's reporting framework for the Apparel, Accessories and Footwear industry as well as Aritzia's internally conducted materiality assessment.

For a detailed discussion on ESG, refer to the "FY2022 Aritzia Community™ ESG Report", which is available at www.aritzia.com and the "Environment, Social & Governance (ESG): Our Impacts and our Progress" section of the Company's AIF, which is available on SEDAR at www.sedar.com.

Consumer Trends

The 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

The women's apparel industry is seasonal in nature, with a higher proportion of net revenue and operating income generated in 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.

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

First fiscal quarter	17%
Second fiscal quarter	24%
Third fiscal quarter	29%
Fourth fiscal quarter	30%
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 our ability to execute our strategy to effectively present seasonal inventory.

Competition

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

Foreign Exchange

Our net revenue is derived in Canadian and U.S. 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 the "Risk Factors" section of this MD&A.

HOW WE ASSESS THE PERFORMANCE OF OUR BUSINESS

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

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

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

Due to temporary boutique closures from COVID-19 in fiscal 2022 and fiscal 2021 which resulted in boutiques being removed from our comparable store base, we believe total comparable sales growth was not representative of our business and therefore we have not reported figures on this metric for fiscal 2022 or fiscal 2021 in this MD&A.

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

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

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

EBITDA is defined as consolidated net income before depreciation and amortization, finance expense and income tax expense. We believe this measure is useful as it is used by management as a component of reconciliation between other non-IFRS measures and their most comparable IFRS measure.

Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue are useful measures of operating performance, as we believe they provide a more relevant picture of operating results in that the measures exclude 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 and Adjusted EBITDA as a percentage of net revenue 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 stock-based compensation expense, unrealized gains or losses on equity derivative and forward contracts, a deduction of interest expense and depreciation relating to our leases to reflect an estimate of rent expense, fair value adjustment for inventories acquired in CYC, fair value adjustments of NCI in exchangeable shares liability and other non-cash items and/or items that we consider non-recurring and not representative of our ongoing operating performance. We define Adjusted EBITDA as a percentage of net revenue as the percentage obtained by dividing Adjusted EBITDA by net revenue.

Adjusted Net Income (and per Diluted Share) and Adjusted Net Income as a percentage of net revenue are useful measures of performance, as we believe they provide 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 and Adjusted Net Income as a percentage of net revenue 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 stock-based compensation expense, unrealized gains or losses on equity derivative and forward contracts, fair value adjustment for inventories acquired in CYC, fair value adjustments of NCI in exchangeable shares liability and other non-cash items and/or items that 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. We define Adjusted Net Income as a percentage of net revenue as the percentage obtained by dividing Adjusted Net Income by net revenue.

Capital cash expenditures (net of proceeds from lease incentives) is a useful measure as we believe it is a more useful indicator of the net cash capital investment relating to our boutiques and infrastructure. We define capital cash expenditures (net of proceeds from lease incentives) as cash used in investing activities, excluding cash used in business combinations, less proceeds from lease incentives.

Free cash flow is a useful metric because it is an indicator of how much cash is available for business acquisitions, debt repayment, share repurchases and other investing and 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 invest in infrastructure. We define free cash flow as net cash generated from operating activities excluding interest paid on credit facilities, plus proceeds from lease incentives, less repayments of principal on lease liabilities and cash used for the purchase of property, equipment and intangible assets.

NON-IFRS MEASURES AND RETAIL INDUSTRY METRICS

This MD&A makes reference to certain non-IFRS measures and 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 financial measures including "EBITDA", "Adjusted EBITDA", and "Adjusted Net Income"; non-IFRS ratios including "Adjusted Net Income per Diluted Share", "Adjusted EBITDA as a percentage of net revenue", and "Adjusted Net Income as a percentage of net revenue"; and capital management measures including "capital cash expenditures (net of proceeds from lease incentives)", and "free cash flow." This MD&A also makes reference to "gross profit margin" as well as "comparable sales growth", which are commonly used operating metrics in the retail industry but may be calculated differently by other retailers. Gross profit margin and comparable sales growth are considered supplementary financial measures under applicable securities laws. Our comparable sales growth calculation excludes the impact of foreign currency fluctuations. These non-IFRS measures and 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 and retail industry metrics in the evaluation of issuers. Our management also uses non-IFRS measures and 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 of these non-IFRS measures and retail industry metrics and reconciliations of these non-IFRS financial measures to the relevant reported measures, please see the "How We Assess the Performance of Our Business" and "Selected Consolidated Financial Information" sections of this MD&A.

RESULTS OF OPERATIONS

Analysis of Results for Third Quarter Fiscal 2023

Consolidated Statements of Operations *(in thousands of Canadian dollars, unless otherwise noted)*	Q3 2023		Q3 2022	
Net revenue	$ 624,615	100.0%	$ 453,323	100.0%
Cost of goods sold	353,952	56.7%	243,181	53.6%
Gross profit	270,663	43.3%	210,142	46.4%
Operating expenses				
Selling, general and administrative	163,737	26.2%	110,084	24.3%
Stock-based compensation expense	11,558	1.9%	9,109	2.0%
Income from operations	95,368	15.3%	90,949	20.1%
Finance expense	9,056	1.4%	6,160	1.4%
Other expense (income)	(11,994)	(1.9)%	(6,218)	(1.4)%
Income before income taxes	98,306	15.7%	91,007	20.1%
Income tax expense	27,578	4.4%	26,066	5.7%
Net income	$ 70,728	11.3%	$ 64,941	14.3%
Net income per diluted share	$ 0.61		$ 0.56	
Adjusted EBITDA[(1)]	$ 119,618	19.2%	$ 109,289	24.1%
Adjusted Net Income [(1)]	$ 76,610	12.3%	$ 71,199	15.7%
Adjusted Net Income [(1)] per Diluted Share	$ 0.67		$ 0.61	

Net revenue increased by 37.8% to $624.6 million, compared to $453.3 million in Q3 2022. The Company continues to see strong momentum in the United States, where net revenues increased by 57.8% to $313.5 million, compared to $198.7 million in Q3 2022.

- **Retail net revenue** increased by 38.6% to $423.2 million, compared to $305.3 million in Q3 2022. The increase was led by outstanding performance of our existing and new boutiques in the United States and high single digit comparable sales growth in Canada. Boutique count at the end of Q3 2023 totaled 113 compared to 105 boutiques at the end of Q3 2022.
- **eCommerce net revenue** increased by 36.1% to $201.4 million, compared to $148.0 million in Q3 2022, driven by exceptional performance in the United States and double digit growth in Canada.

The following table provides net revenue by channel and geographic location for the periods indicated.

(in thousands of Canadian dollars)	Q3 2023	Q3 2022
Retail net revenue	$ 423,224	$ 305,345
eCommerce net revenue	201,391	147,978
Net revenue	$ 624,615	$ 453,323

	Q3 2023	Q3 2022
Canada net revenue	$ 311,081	$ 254,595
United States net revenue	313,534	198,728
Net revenue	$ 624,615	$ 453,323

Gross profit increased by 28.8% to $270.7 million, compared to $210.1 million in Q3 2022. Gross profit margin was 43.3%, compared to 46.4% in Q3 2022. The 310 bps decrease in gross profit margin was primarily driven by ongoing inflationary pressures, additional warehousing costs related to inventory management and foreign currency headwinds. These impacts were partially offset by lower expedited freight costs and leverage on occupancy and depreciation costs.

SG&A expenses increased by 48.7% to $163.7 million, compared to $110.1 million in Q3 2022. SG&A expenses were 26.2% of net revenue, compared to 24.3% in Q3 2022. The increase in SG&A expenses was primarily due to additional investments in retail talent to ensure the Company continues to deliver exceptional client service, as well as ongoing investments in talent, marketing initiatives and technology to support its growth.

Depreciation and amortization increased by $5.9 million to $34.6 million, compared to $28.7 million in Q3 2022.

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

(in thousands of Canadian dollars)	**Q3 2023**	**Q3 2022**
Depreciation and amortization	$ 13,434	$ 11,238
Depreciation on right-of-use assets	21,204	17,461
Total depreciation and amortization	$ 34,638	$ 28,699

Stock-based compensation expense was $11.6 million, compared to $9.1 million in Q3 2022.

Included in Q3 2023 is $7.5 million in expenses related to the accounting for the Company's deferred, performance and restricted share units and $4.1 million in expenses primarily related to the accounting for options under the Company's long-term incentive plan (the "Omnibus Plan").

Included in Q3 2022 is $6.4 million in expenses related to the accounting for the Company's deferred, performance and restricted share units and $2.7 million in expenses primarily related to the accounting for options under the Company's Omnibus Plan.

The Company uses equity derivative contracts to offset our cash flow variability of the expected payment associated with our cash-settled deferred and restricted share units. Unrealized gains and losses related to these equity derivative contracts are recorded in other expense (income).

Finance expense increased by $2.9 million to $9.1 million, compared to $6.2 million in Q3 2022. The increase in finance expense was primarily due to higher interest expense on lease liabilities in Q3 2023.

Other expense (income) was $(12.0) million, compared to other income of $(6.2) million in Q3 2022.

Other expense (income) of $(12.0) million in Q3 2023 primarily relates to:
- net unrealized and realized operational foreign exchange gains of $5.8 million,
- unrealized gain on equity derivative contracts of $4.8 million,
- realized gain on equity derivative contracts of $1.4 million and
- interest and other income of $0.5 million, offset by
- transaction costs relating to the 2022 Secondary Offering of $0.5 million.

Other expense (income) of $(6.2) million in Q3 2022 primarily related to:
- unrealized gain on equity derivative contracts of $7.0 million,
- unrealized and realized operational foreign exchange gains of $1.2 million and
- interest income of $0.3 million, partially offset by
- fair value adjustment of NCI in exchangeable shares liability of $2.0 million and
- transaction costs relating to the acquisition of CYC of $0.2 million.

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 2023 and Q3 2022 were 26.6%.

Income tax expense was $27.6 million, compared to $26.1 million in Q3 2022 and the effective tax rates for Q3 2023 and Q3 2022 were 28.1% and 28.6%, 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 was $70.7 million, an increase of 8.9% compared to $64.9 million in Q3 2022. The increase in net income was primarily due to a 37.8% increase in net revenue, partially offset by the Company's continued investment in talent, marketing initiatives and technology.

Net income per diluted share was $0.61, an increase of 8.9% compared to $0.56 in Q3 2022, primarily due to the factors discussed above.

Adjusted EBITDA[(1)] was $119.6 million, or 19.2% of net revenue, an increase of 9.5% compared to $109.3 million, or 24.1% of net revenue in Q3 2022. The decrease in Adjusted EBITDA as a percentage of net revenue was primarily due to the Company's continued investment in talent, marketing initiatives and technology, partially offset by a 37.8% increase in net revenue.

Adjusted Net Income[(1)] was $76.6 million, an increase of 7.6% compared to $71.2 million in Q3 2022, primarily due to the factors discussed above.

Adjusted Net Income[(1)] **per Diluted Share** was $0.67, an increase of 9.8% compared to $0.61 in Q3 2022, primarily due to the factors discussed above.

Cash and cash equivalents at the end of Q3 2023 totaled $131.9 million compared to $305.9 million at the end of Q3 2022.

Inventory at the end of Q3 2023 was $508.4 million, an increase of 187.5% compared to $176.9 million at the end of Q3 2022. The Company had low inventory levels in the latter part of fiscal 2022 and since the supply chain environment was dynamic and uncertain at the time, the Company made the strategic decision to order future season buys earlier in order to: build back its inventory base, mitigate supply chain risk, and ensure the Company's ability to fuel the demand for its product. In addition, improved freight timelines resulted in inventory arriving sooner than anticipated during Q3 2023, contributing to the year-over-year increase. The Company's inventory position at the end of Q3 2023 has been reflected accordingly in future season buys. The Company is comfortable with its inventory position to meet client demand, expects normalized markdowns in the fourth quarter of 2023 to be no greater than pre-pandemic levels, year-over-year inventory growth rate to begin to moderate through the fourth quarter of 2023 and more closely align with sales trends by the end of the second quarter of the Company's next fiscal year.

Capital cash expenditures (net of proceeds from lease incentives)[(1)] were $26.4 million in Q3 2023, compared to $20.3 million in Q3 2022.

Analysis of Results for YTD 2023

Consolidated Statements of Operations *(in thousands of Canadian dollars, unless otherwise noted)*	YTD 2023		YTD 2022	
Net revenue	$1,558,048	100.0%	$1,050,308	100.0%
Cost of goods sold	886,216	56.9%	574,862	54.7%
Gross profit	671,832	43.1%	475,446	45.3%
Operating expenses				
Selling, general and administrative	431,170	27.7%	272,581	26.0%
Stock-based compensation expense	21,212	1.4%	20,406	1.9%
Income from operations	219,450	14.1%	182,459	17.4%
Finance expense	21,762	1.4%	19,110	1.8%
Other income	(11,968)	(0.8)%	(9,523)	(0.9)%
Income before income taxes	209,656	13.5%	172,872	16.5%
Income tax expense	59,406	3.8%	50,180	4.8%
Net income	$ 150,250	9.6%	$ 122,692	11.7%
Net income per diluted share	$ 1.30		$ 1.06	
Adjusted EBITDA[(1)]	$ 271,827	17.4%	$ 223,082	21.2 %
Adjusted Net Income[(1)]	$ 168,100	10.8%	$ 137,261	13.1 %
Adjusted Net Income[(1)] per Diluted Share	$ 1.46		$ 1.19	

Net revenue increased by 48.3% to $1.6 billion, compared to $1.1 billion in YTD 2022. The Company continues to see strong momentum in the United States, where net revenues increased by 70.6% to $783.5 million compared to $459.3 million in YTD 2022. The Company also saw meaningful growth in Canada where net revenue increased by 31.1% to $774.5 million, compared to $591.0 million in YTD 2022

– **Retail net revenue** increased by 59.1% to $1.1 billion, compared to $667.9 million in YTD 2022. The increase in revenue was led by outstanding performance of our existing and new boutiques in the United States, strong double digit comparable sales growth in Canada, as well as boutique revenue from 34 of our boutiques which were closed for approximately two-thirds of the first quarter of fiscal 2022 ("Q1 2022") and one-third of the second quarter of fiscal 2022 ("Q2 2022").

– **eCommerce net revenue** increased by 29.6% to $495.4 million, compared to $382.4 million in YTD 2022. Overall eCommerce revenue growth was moderated by the channel shift to retail in Eastern Canada where 34 of our boutiques were closed for approximately two-thirds of Q1 2022 and one-third of Q2 2022.

The following table provides net revenue by channel and geographic location for the periods indicated.

(in thousands of Canadian dollars)	YTD 2023	YTD 2022
Retail net revenue	$ 1,062,678	$ 667,936
eCommerce net revenue	495,370	382,372
Net revenue	$ 1,558,048	$ 1,050,308

	YTD 2023	YTD 2022
Canada net revenue	$ 774,542	$ 590,971
United States net revenue	783,506	459,337
Net revenue	$ 1,558,048	$ 1,050,308

Gross profit increased by 41.3% to $671.8 million, compared to $475.4 million in YTD 2022. Gross profit margin was 43.1%, compared to 45.3% in YTD 2022. The 220 bps decrease in gross profit margin was primarily due to inflationary pressures, higher freight costs, additional warehousing costs and foreign currency headwinds, as well as normalized markdowns from YTD 2022 due to low inventory levels last year. These impacts were partially offset by leverage on occupancy and depreciation costs.

SG&A expenses increased by 58.2% to $431.2 million, compared to $272.6 million in YTD 2022. SG&A expenses were 27.7% of net revenue, compared to 26.0% in YTD 2022. The increase in SG&A expenses was primarily due to additional investments in retail talent to ensure the Company continues to deliver exceptional client service, as well as ongoing investments in talent, marketing initiatives and technology to support its growth.

Depreciation and amortization increased by $13.2 million to $96.1 million, compared to $82.9 million in YTD 2022.

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

(in thousands of Canadian dollars)	YTD 2023	YTD 2022
Depreciation and amortization	$ 38,238	$ 32,459
Depreciation on right-of-use assets	57,883	50,465
Total depreciation and amortization	$ 96,121	$ 82,924

Stock-based compensation expense was $21.2 million, compared to $20.4 million in YTD 2022.

Included in YTD 2023 is $10.9 million in expenses related to the accounting for the Company's deferred, performance and restricted share units and $10.3 million in expenses primarily related to the accounting for options under the Company's Omnibus Plan.

Included in YTD 2022 is $13.0 million in expenses related to the accounting for the Company's deferred, performance and restricted share units and $7.4 million in expenses primarily related to the accounting for options under the Company's Omnibus Plan.

The Company uses equity derivative contracts to offset our cash flow variability of the expected payment associated with our cash-settled deferred and restricted share units. Unrealized gains and losses related to these equity derivative contracts are recorded in other expense (income).

Finance expense increased by $2.7 million to $21.8 million, compared to $19.1 million in YTD 2022. The increase in finance expense was primarily due to higher interest expense on lease liabilities in YTD 2023 and higher interest expense on equity derivative contracts (total return swaps), partially offset by a reduction in interest expense from having repaid the term loan of $75.0 million during Q2 2022.

Other expense (income) was $(12.0) million, compared to $(9.5) million in YTD 2022.

Other expense (income) of $(12.0) million in YTD 2023 primarily relates to:

– net unrealized and realized operational foreign exchange gains of $9.3 million,
– interest and other income of $1.7 million and
– realized gain on equity derivative contracts of $1.4 million, partially offset by
– transaction costs relating to the 2022 Secondary Offering of $0.5 million.

Other expense (income) of $(9.5) million in YTD 2022 primarily related to:
– unrealized gain on equity derivative contracts of $12.2 million,
– net unrealized and realized operational foreign exchange gains of $1.3 million and
– interest and other income of $1.1 million, partially offset by
– transaction costs relating to the acquisition of CYC of $2.6 million,
– fair value adjustments of NCI in exchangeable shares liability of $2.0 million and
– transaction costs relating to the secondary offering of $0.5 million.

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 2023 and YTD 2022 were 26.6%.

Income tax expense was $59.4 million, compared to $50.2 million in YTD 2022 and the effective tax rates for YTD 2023 and YTD 2022 were 28.3% and 29.0%, 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 was $150.3 million, an increase of 22.5% compared to $122.7 million in YTD 2022. The increase in net income was primarily due to a 48.3% increase in net revenue, partially offset by the Company's continued investment in talent, marketing initiatives and technology.

Net income per diluted share was $1.30, an increase of 22.6%, compared to $1.06 in YTD 2022, primarily due to the factors discussed above.

Adjusted EBITDA(1) was $271.8 million, or 17.4% of net revenue, an increase of 21.9%, compared to $223.1 million, or 21.2% of net revenue in YTD 2022. The decrease in Adjusted EBITDA as a percentage of net revenue was primarily due to the Company's continued investment in talent, marketing initiatives and technology, partially offset by a 48.3% increase in net revenue.

Adjusted Net Income (1) was $168.1 million, an increase of 22.5%, compared to $137.3 million in YTD 2022, primarily due to the factors discussed above.

Adjusted Net Income (1) **per Diluted Share** was $1.46, an increase of 22.7%, compared to $1.19 in YTD 2022, primarily due to the factors discussed above.

Capital cash expenditures (net of proceeds from lease incentives)(1) were $73.5 million in YTD 2023, compared to $36.2 million in YTD 2022.

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 facility, are expected to be sufficient to meet our future operating expenses, capital expenditures, debt service requirements and return to shareholders (share buybacks). Our ability to fund future operating expenses, capital expenditures, debt service requirements and return to shareholders (share buybacks) will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Summary of Factors Affecting Performance", "Recent Events" 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 revolving credit facility.

Revolving Credit Facility

We have a revolving credit facility of $175.0 million which bears interest at BA, LIBO or Prime plus a marginal rate between 0.50% and 2.50%. As at November 27, 2022, no amounts were drawn on the revolving credit facility.

In addition, we also have letters of credit facilities of CAD$50.0 million and US$40.0 million, secured *pari passu* with the revolving credit facility. The interest rate for the letters of credit is between 1.00% and 2.50%.

See “Contractual Obligations – Off-Balance Sheet Arrangements and Commitments” for letters of credit issued.

The credit facility 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 2023	Q3 2022[4]	Fiscal 2023	Fiscal 2022[4]
Net cash generated from operating activities	$ 114,732	$ 207,453	$ 64,729	$ 337,620
Net cash used in financing activities	(14,830)	(12,524)	(107,242)	(103,922)
Cash used in investing activities	(32,401)	(22,336)	(89,973)	(78,842)
Effect of exchange rate changes on cash and cash equivalents	(1,027)	1,543	(861)	1,929
Change in cash and cash equivalents	$ 66,474	$ 174,136	$ (133,347)	$ 156,785

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

Analysis of Cash Flows for the Third Quarter and YTD 2023

Cash Flows Generated from Operating Activities

For Q3 2023, cash flows generated from operating activities totaled $114.7 million, compared to $207.5 million in Q3 2022. This change was primarily attributable to a higher use of working capital due to higher inventory purchases and timing of payments along with an increase in income taxes paid, partially offset by an increase in income from operations.

For YTD 2023, cash flows generated from operating activities totaled $64.7 million, compared to $337.6 million in YTD 2022. This change was primarily attributable to a higher use of working capital due to higher inventory purchases and timing of payments along with an increase in income taxes paid, partially offset by an increase in income from operations.

Cash Flows Used in Financing Activities

For Q3 2023, cash flows used in financing activities totaled $14.8 million, compared to $12.5 million in Q3 2022. Financing activities in Q3 2023 primarily relate to the repayment of principal on lease liabilities and the $5.3 million repurchase of subordinate voting shares for cancellation, partially offset by proceeds received from options exercised and proceeds received from lease incentives. Financing activities in Q3 2022 primarily relate to the repayment of principal on lease liabilities, partially offset by proceeds received from lease incentives and proceeds received from options exercised.

For YTD 2023, cash flows used in financing activities totaled $107.2 million, compared to $103.9 million in YTD 2022. Financing activities in YTD 2023 primarily relate to the repayment of principal on lease liabilities and the $61.1 million repurchase of subordinate voting shares for cancellation, partially offset by proceeds received from lease incentives and proceeds received from options exercised. Financing activities in YTD 2022 primarily relate to a $75.0 million term loan repayment and the repayment of principal on lease liabilities, partially offset by proceeds received from lease incentives and proceeds received from options exercised.

Cash Flows Used in Investing Activities

For Q3 2023, cash flows used in investing activities totaled $32.4 million, compared to $22.3 million in Q3 2022. Investing activities in Q3 2023 primarily relate to new boutiques, boutique expansions and repositions, and distribution center projects. Investing activities in Q3 2022 primarily relate to new boutiques and boutique expansions and repositions.

For YTD 2023, cash flows used in investing activities totaled $90.0 million, compared to $78.8 million in YTD 2022. Investing activities in YTD 2023 primarily relate to new boutiques, boutique expansions and repositions, and distribution center projects as well as a $5.6 million contingent consideration payout to CYC's shareholders. Investing activities in YTD 2022 primarily relate to the acquisition of CYC, net of cash assumed of $32.6 million and new boutique expansions and repositions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at November 27, 2022.

(in thousands of Canadian dollars)	Less than 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	$ 319,364	$ —	$ —	$ 319,364
Lease liabilities	129,140	326,867	270,857	726,864
Contingent consideration	6,619	—	—	6,619
Minimum lease commitments with future commencement dates	6,901	72,637	176,911	256,449
Total contractual obligations and commitments	$ 462,024	$ 399,504	$ 447,768	$ 1,309,296

As part of the CYC acquisition, CYC issued exchangeable shares to minority shareholders in exchange for their 25% share of the total common shares at acquisition, resulting in a non-controlling interest in exchangeable shares liability (refer to section below "Financial Instruments - Non-controlling interest in exchangeable shares liability"). As at November 27, 2022, the fair value of the non-controlling interest in exchangeable shares liability was $35.5 million (February 27, 2022 - $35.5 million).

OFF-BALANCE SHEET ARRANGEMENTS

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at November 27, 2022, we had purchase obligations of $186.3 million, which represent commitments for fabric expected 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 27, 2022, letters of credit totaling $54.6 million have been issued.

Other than those items disclosed here and elsewhere in this MD&A, in note 20 to our Q3 2023 condensed interim consolidated financial statements and in note 21 to our fiscal 2022 audited annual consolidated financial statements, we do not have any material off-balance sheet arrangements or commitments as at November 27, 2022.

FINANCIAL INSTRUMENTS

In connection with the acquisition of CYC, we entered into two financial instruments that will be revalued on a recurring basis in the consolidated financial statements: contingent consideration and non-controlling interest in exchangeable shares liability. Changes in the fair value of these two financial instruments are recorded in net income.

Contingent consideration

We have a contingent consideration under the CYC purchase agreement that is based on future operating results of CYC during the measurement period ending January 31, 2023. As at the acquisition date of CYC on June 25, 2021, we recorded a contingent consideration liability of $13.2 million which is payable in two equal installments of $6.6 million on May 31, 2022 and May 31, 2023. In Q1 2023, the first installment was paid to CYC net of $1.0 million in indemnities and shared costs pursuant to the purchase agreement. In Q3 and YTD 2023, there was no change in fair value of the remaining contingent consideration.

Non-controlling interest in exchangeable shares liability

In conjunction with the acquisition, CYC issued exchangeable shares to minority shareholders ("exchangeable shareholders") in exchange for their 25% share of the total common shares at acquisition. The exchangeable shares allow the holders to put back their shares to CYC in the following periods: one-third from May 1, 2024 to August 31, 2024, one-third from May 1, 2025 to August 31, 2025, and one-third from May 1, 2026 to August 31, 2026 (the "put options"). In the event that the exchangeable shareholders do not exercise the put option by August 31, 2026, we have 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 option and the call option are based on certain specific operating results of CYC in the most recently completed fiscal year prior to exercise, subject to a capped enterprise value of $60.0 million (remaining 25% purchase). Upon exercise, the options are settled through a variable number of the Company's shares based on a volume weighted average price (VWAP) of the Company's shares for 30 consecutive trading days.

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

Equity derivative contracts

We have equity derivative contracts to hedge the share price exposure on our cash-settled deferred and restricted share units. 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. During Q3 2023 and YTD 2023, the Company recorded realized gains of $1.4 million (Q3 2022 and YTD 2022 - $nil) arising from the settlement of equity derivative contracts. As at November 27, 2022, the equity derivative contracts had a positive fair value of $15.6 million (February 27, 2022 - $15.6 million) which is recorded in prepaid expenses and other current assets.

RELATED PARTY TRANSACTIONS

During Q3 2023 and YTD 2023, we made payments of $0.9 million and $3.4 million, respectively (Q3 2022 and YTD 2022 - $1.2 million and $3.6 million, respectively) for lease of premises and management services and $0.7 million and $1.3 million, respectively (Q3 2022 and YTD 2022 - $0.1 million and $0.4 million, respectively) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at November 27, 2022, the outstanding balance of lease liabilities owed to these companies was $29.8 million (February 27, 2022 - $13.3 million). As at November 27, 2022, $0.6 million was included in accounts payable and accrued liabilities (February 27, 2022 - $0.5 million). These transactions were measured at the amount of consideration established at market terms.

TRANSACTIONS WITH KEY MANAGEMENT

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

(in thousands of Canadian dollars)	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Salaries, directors' fees and short-term benefits	945	1,598	3,346	3,792
Stock-based compensation	4,038	3,212	6,272	7,453
	$ 4,983	$ 4,810	$ 9,618	$ 11,245

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 the use of estimates of the return rate of merchandise based on historical return patterns.

Valuation of Finished Goods Inventory

Inventory is stated at the lower of cost and net realizable value. We periodically review our inventories and make provisions which requires the use of estimates related to product quality, damages, future demand, selling prices, and market conditions.

Impairment of Goodwill and Indefinite Life Intangible Assets

Goodwill and indefinite life intangible asset impairment testing requires the use of estimates in the impairment testing model. On an annual basis, we test whether goodwill and indefinite life intangible assets are impaired. The recoverable value is determined using discounted future cash flow models, which incorporate estimates regarding future events, specifically future cash flows, growth rates and discount rates. We use judgment in determining the grouping of assets to identify our cash generating units ("CGUs") for purposes of testing for impairment. In testing for impairment, goodwill acquired in a business combination is allocated to the group of CGUs that are expected to benefit from the synergies of the business combination, which involves judgment.

Leases

We estimate the incremental borrowing rate used for calculating lease liabilities and right-of-use assets. We determine the incremental borrowing rate of each leased asset as the rate of interest that we would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

We exercise judgment in determining the appropriate lease term at the lease commencement date. We exercise judgment on whether we will exercise available renewal or termination options, and thus include such options in the lease terms. We consider all facts and circumstances that create an economic incentive to exercise a renewal or termination option.

Business Combinations

Business combinations require judgment in applying the acquisition method of accounting and estimates to value identifiable assets and liabilities at the acquisition date. We may engage independent third parties to determine the fair value of inventory, property and equipment and intangible assets. Assumptions and estimates are used to determine cash flow projections, including the period of future benefit, future growth and discount rates, among other factors. The values place on the acquired assets and liabilities assumed affect the amount of goodwill recorded on an acquisition.

Non-Controlling Interest in Exchangeable Shares Liability

Non-controlling interest in exchangeable shares involves uncertainty in estimating the fair value of the obligation on a recurring basis. The fair value estimate includes inputs associated with expected volatility, anticipated timing and discount rate associated with the obligation.

SIGNIFICANT NEW ACCOUNTING STANDARDS

Standards Issued But Not Yet Adopted

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

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

Definition of Accounting Estimates (Amendments to IAS 8)

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

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

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed, and not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted and are to be applied prospectively. The Company is currently assessing the potential impact of these amendments.

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

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

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 and the "Risk Factors" section of the Company's fiscal 2022 MD&A, which are 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 have a revolving credit facility which provides available borrowings in an amount up to $175.0 million. Because the revolving credit facility bears interest at a variable rate, we are exposed to market risks relating to changes in interest rates on outstanding balances. As at November 27, 2022, no advances were made under the revolving credit facility.

Credit Risk

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

Liquidity Risk

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

Equity Price Risk

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

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of disclosure controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, including the CEO and the CFO, so that they can make appropriate and timely decisions regarding public disclosure, including information contained in annual and interim filings, including the consolidated financial statements, MD&A, AIF, and other documents and external communications.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. The Company's internal controls over financial reporting include, but are not limited to, detailed policies and procedures relating to financial accounting and reporting, and controls over systems that process and summarize transactions. The Company's procedures for financial reporting also include the active involvement of qualified financial professionals, senior management and its Audit Committee.

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures. Therefore, even when determined to be designed effectively, disclosure controls and internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during Q3 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CURRENT SHARE INFORMATION

As of January 10, 2023, an aggregate of 89,840,814 subordinate voting shares, 20,437,349 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 Brian Hill, our principal shareholder, Founder and Executive Chair. As of January 10, 2023, an aggregate of 9,347,955 options, 201,060 performance share units and 347,917 restricted share units to acquire subordinate voting shares are outstanding.

ADDITIONAL INFORMATION

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

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS AND CERTAIN PERFORMANCE MEASURES

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

Consolidated Quarterly Results

(in thousands of Canadian dollars, unless otherwise noted)	Fiscal 2023			Fiscal 2022				Fiscal 2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Summary:								
Net revenue	$ 624,615	$ 525,523	$ 407,910	$ 444,322	$ 453,323	$ 350,069	$ 246,916	$ 267,525
Cost of goods sold	353,952	305,250	227,014	264,816	243,181	193,873	137,808	164,600
Gross profit	270,663	220,273	180,896	179,506	210,142	156,196	109,108	102,925
SG&A	163,737	147,154	120,279	120,221	110,084	92,115	70,382	72,357
Income from operations	95,368	64,138	59,944	53,560	90,949	55,819	35,691	26,375
Net income	70,728	46,261	33,261	34,225	64,941	39,848	17,903	16,070
Net income per share	$ 0.64	$ 0.42	$ 0.30	$ 0.31	$ 0.59	$ 0.36	$ 0.16	$ 0.15
Net income per Diluted Share	$ 0.61	$ 0.40	$ 0.29	$ 0.29	$ 0.56	$ 0.35	$ 0.16	$ 0.14
Adjusted EBITDA [(5)]	$ 119,618	$ 82,563	$ 69,646	$ 66,303	$ 109,289	$ 72,891	$ 40,902	$ 35,205
Adjusted Net Income[(5)]	$ 76,610	$ 50,619	$ 40,871	$ 39,475	$ 71,199	$ 44,411	$ 21,651	$ 17,678
Adjusted Net Income[(5)] per Diluted Share	$ 0.67	$ 0.44	$ 0.35	$ 0.34	$ 0.61	$ 0.39	$ 0.19	$ 0.16
Weighted average number of diluted shares outstanding (in thousands)	115,154	114,457	116,080	116,774	116,140	115,265	114,711	114,052
Cash and cash equivalents	$ 131,898	$ 65,424	$ 179,358	$ 265,245	$ 305,932	$ 131,796	$ 157,878	$ 149,147
Capital cash expenditures (net of proceeds from lease incentives)[(5)]	$ (26,362)	$ (22,830)	$ (24,355)	$ (16,434)	$ (20,318)	$ (9,333)	$ (6,522)	$ (9,415)
Free cash flow[(5)]	$ 68,297	$ (84,514)	$ (54,246)	$ (37,047)	$ 169,704	$ 76,742	$ 11,933	$ (24,936)
Percentage of Net Revenue:								
Cost of goods sold	56.7%	58.1%	55.7%	59.6%	53.6%	55.4%	55.8%	61.5%
Gross profit	43.3%	41.9%	44.3%	40.4%	46.4%	44.6%	44.2%	38.5%
SG&A	26.2%	28.0%	29.5%	27.1%	24.3%	26.3%	28.5%	27.0%
Income from operations	15.3%	12.2%	14.7%	12.1%	20.1%	15.9%	14.5%	9.9%
Net income	11.3%	8.8%	8.2%	7.7%	14.3%	11.4%	7.3%	6.0%
Adjusted EBITDA [(5)]	19.2%	15.7%	17.1%	14.9%	24.1%	20.8%	16.6%	13.2%
Adjusted Net Income[(5)]	12.3%	9.6%	10.0%	8.9%	15.7%	12.7%	8.8%	6.6%
Other Performance Metrics:								
Net revenue growth (decline)	37.8%	50.1%	65.2%	66.1%	62.9%	74.9%	121.7%	(2.9)%
Comparable sales growth[(5)]	22.8%	28.3%	29.4%	n/a	n/a	n/a	n/a	n/a
Boutiques:[(6)]								
Number of boutiques, beginning of period	112	109	106	105	104	102	101	101
New boutiques added	—	3	3	2	1	2	1	1
Repositioned to a flagship boutique	—	—	—	—	—	—	—	(1)
Pop-up boutique converted to a permanent boutique	1	—	—	—	—	—	—	—
Boutique closure	—	—	—	(1)	—	—	—	—
Number of boutiques, end of period	113	112	109	106	105	104	102	101
Boutiques expanded or repositioned	4	—	—	1	4	1	—	—

Notes:

(5) See “How We Assess the Performance of Our Business” for definitions of Adjusted EBITDA and Adjusted Net Income which are non-IFRS financial measures, Adjusted Net Income per Diluted Share, Adjusted EBITDA as a percentage of net revenue and Adjusted Net Income as a percentage of net revenue which are non-IFRS ratios, Capital Cash Expenditures (net of proceeds from lease incentives) and Free Cash Flow which are capital management measures, and comparable sales growth which is a supplementary financial measure. See also “Non-IFRS Measures and Retail Industry Metrics”.

(6) CYC had four boutiques as at November 27, 2022 which are excluded from the boutique count.