ARITZIA

Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Third Quarter Ended November 25, 2018

January 9, 2019

The following Management's Discussion and Analysis ("MD&A") dated January 9, 2019 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Aritzia Inc. (together with its consolidated subsidiaries, referred to herein as "Aritzia", the "Company", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the thirteen and thirty-nine week periods ended November 25, 2018. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes for Q3 2019 and YTD 2019 (as hereinafter defined) and the Company's audited consolidated financial statements and accompanying notes for Fiscal 2018 (as hereinafter defined) and the related Management's Discussion and Analysis.

Basis of Presentation

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

All references in this MD&A to "Q3 2019" are to our 13-week period ended November 25, 2018, to "Q3 2018" are to our 13-week period ended November 26, 2017, to "YTD 2019" are to our 39-week period ended November 25, 2018 and to "YTD 2018" are to our 39-week period ended November 26, 2017. All references in this MD&A to "Fiscal 2020" are to our 52-week period ending March 1, 2020, "Fiscal 2019" are to our 53-week period ending March 3, 2019, "Fiscal 2018" are to our 52-week period ended February 25, 2018, and to "Fiscal 2017" are to our 52-week period ended February 26, 2017. In addition, references to "Q1 2019" are to our 13-week period ended May 27, 2018, and to "Q2 2019" are to our 13-week period ended August 26, 2018.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2019 and YTD 2019 and this MD&A were authorized by the Company's Board of Directors.

Non-IFRS Measures Including Retail Industry Metrics

This MD&A makes reference to certain non-IFRS measures including certain retail industry metrics. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per diluted share" and "gross profit margin". This MD&A also makes reference to "comparable sales growth", which is a commonly used operating metric in the retail industry but may be calculated differently compared to other retailers. Our comparable sales growth calculation excludes the impact of foreign

currency fluctuations. These non-IFRS measures, including retail industry metrics, are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures, including retail industry metrics, in the evaluation of issuers. Our management also uses non-IFRS measures, including retail industry metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see the "How We Assess the Performance of Our Business" and "Selected Consolidated Financial Information" sections of this MD&A.

Forward-Looking Information

Certain statements made in this MD&A may constitute forward-looking information under applicable securities laws. These statements may relate to our future financial outlook and anticipated events or results and include, but are not limited to, expectations regarding industry trends, overall market growth rates, our growth rates and growth strategies, our expected comparable sales growth in the fourth quarter and revenue growth and Adjusted EBITDA margin for Fiscal 2019, expectations regarding our capital expenditures, operations and use of future cash flow, our financial position, financial results, business plans and strategies, expectations regarding eCommerce growth and omni-channel capabilities, expectations regarding our sourcing initiatives, expectations regarding new boutique openings and the expansion and repositioning of existing boutiques, expectations regarding increased efficiencies from new or expanded distribution centres and point-of-sale system updates, our ability to recruit exceptional talent, our belief that our business model will enable us to deliver consistent revenue and profitability growth and in turn, increase shareholder value over the long term and intentions with respect to the implementation of new accounting standards, and other statements that are not historical facts. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein.

Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may" "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking statements are current as of the date of this MD&A and are based on applicable estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, we do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. There can be no assurance that such estimates and assumptions will prove to be correct.

Implicit in forward-looking statements in respect of the Company's expectations for the fourth quarter of Fiscal 2019 to deliver comparable sales growth in the mid-single digits, and Fiscal 2019 to deliver mid-teens revenue growth and consistent Adjusted EBITDA margin, as compared to Fiscal 2018, are certain current assumptions, including, among others, the opening of seven new boutiques and two pop-up boutiques including Santana Row in San Jose, which opened in the second quarter, and Old Orchard in Chicago, which opened in the third quarter, the expansion/repositioning of five boutiques (including two boutiques by the end of the fourth quarter), the continued ability to drive growth in our eCommerce business, gross profit margin down moderately as compared to Fiscal 2018 as a result of increased foreign exchange pressure and higher raw material costs being partially offset by ongoing sourcing initiatives, SG&A will grow proportionately with revenue growth in Fiscal 2019, continued strategic investments in people, technology and infrastructure, net capital expenditures in the range of $45 million to $50 million, taxation rates consistent with historical levels, assumptions regarding the overall retail environment and currency exchange rates for Fiscal 2019. Specifically, we have assumed the following exchange rates for Fiscal 2019: USD:CAD = 1.31. Implicit in forward-looking statements in respect of the Company's boutique pipeline expectations for Fiscal 2020 are certain current assumptions, including, among others, the opening of approximately six new boutiques and three to four boutique expansions/repositions. See also the "Outlook" section of this MD&A.

This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the expansion and enhancement of our boutique network; the growth of our eCommerce business; our ability to drive comparable sales growth; our ability to maintain, enhance, and grow our appeal within our addressable market; our ability to drive ongoing development and innovation of our exclusive brands and product categories; our ability to continue directly sourcing from third party mills, trim suppliers and manufacturers for our exclusive brands; our ability to build our international presence; our ability to retain key personnel; our ability to maintain and expand distribution capabilities; our ability to continue investing in infrastructure to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Risk Factors" section of this MD&A and in the Company's annual information form dated May 10, 2018 for Fiscal 2018 (the "AIF"). A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. The Company cautions that the list of risk factors and uncertainties described in the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and they may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Overview

Aritzia is a vertically integrated, innovative design house of exclusive fashion brands. We design apparel and accessories for our collection of exclusive brands. We conceive, create, develop and sell a strategic mix of women's fashion products directly to our clients with a depth of design and quality that provides compelling value. Our unique multi-brand portfolio and product mix affords us enhanced flexibility to address evolving fashion trends and enables us to appeal to our clients across multiple life stages, resulting in strong and enduring client loyalty.

We connect our clients to the energy of our culture through the products we sell, the environments we create and the ways in which we communicate. We currently operate 68 boutiques in Canada and 24 boutiques in the United States, averaging approximately 6,000 square feet, all of which are in prime locations within high performing retail malls and high streets. We sell our products exclusively through our boutiques and *aritzia.com*, giving us complete control of the presentation of our brand and the relationships with our clients. This strategy allows us to present our brand in a consistent manner, including pricing, marketing and product presentation. We strive to offer our clients an aspirational shopping experience and exceptional level of service at every interaction. Our culture is highly focused on the client, and our sales associates and eCommerce

support teams are trained to provide shopping experiences that are personalized to exceed our clients' wants and needs.

Secondary Offering

On August 7, 2018, we completed a secondary offering ("Secondary Offering") on a bought deal basis of our subordinate voting shares through a secondary sale of shares by certain shareholders. The Secondary Offering of 6,050,000 subordinate voting shares raised gross proceeds of $100.1 million for the selling shareholders, at a price of $16.55 per subordinate voting share. We did not receive any proceeds from the Secondary Offering. As part of the Secondary Offering, certain selling shareholders exchanged 5,880,000 of their multiple voting shares for subordinate voting shares. Underwriting fees were paid by the selling shareholders, and other transaction expenses related to the Secondary Offering of approximately $0.4 million are being paid by us.

Subsequent Event

On December 31, 2018, certain limited liability companies wholly owned by us reorganized into their parent corporation, United States of Aritzia Inc. Effective January 1, 2019, the surviving corporation, United States of Aritzia Inc. is the sole U.S. incorporated Aritzia entity operating in the U.S. This reorganization is not expected to have a significant impact on our financial position.

Financial Highlights

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

Q3 2019 Compared to Q3 2018

Select financial highlights include the following:

- Comparable sales growth[(1)] was 12.9%, the 17th consecutive quarter of positive growth.
- Net revenue increased by 18.8% to $242.9 million from $204.4 million in Q3 2018, with strength across all geographies and all channels.
- Gross profit margin was 43.1%, compared to 44.8% in Q3 2018. The decline was primarily driven by a weakening of the Canadian dollar and higher raw materials costs.
- Adjusted EBITDA[(1)] increased by 14.3% to $57.1 million from $50.0 million in Q3 2018.
- Net income increased by 16.1% to $32.6 million from $28.1 million in Q3 2018.
- Adjusted Net Income[(1)] increased by 17.4% to $35.9 million, or $0.31 per diluted share[(1)], from $30.6 million, or $0.26 per diluted share in Q3 2018.

Notes :

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

Select strategic accomplishments include the following:

- Boutique network growth included two new boutique openings (Place Ste. Foy in Quebec and Toronto Premium Outlets in Ontario) with all new boutiques opened in Fiscal 2019 performing at or above expectations.
- eCommerce growth driven by a continued focus on search engine and core site optimizations.
- Product innovation in our fall/winter assortment provided an expanded and elevated offering, which resonated with clients and drove revenue this season.
- Marketing efforts around social media and influencers fueled further brand awareness in the U.S. and contributed to continued strong U.S revenue growth.

YTD 2019 Compared to YTD 2018

Select financial highlights include the following:

- Comparable sales growth[(1)] was 11.9%, following 6.7% comparable sales growth in YTD 2018.
- Net revenue increased by 17.5% to $615.2 million from $523.5 million in YTD 2018.
- Gross profit margin was 40.5% compared to 40.5% in YTD 2018.
- Adjusted EBITDA[(1)] increased by 25.2% to $118.5 million from $94.6 million in YTD 2018.
- Net income increased by 45.7% to $60.0 million from $41.2 million in YTD 2018.
- Adjusted Net Income[(1)] increased by 30.0% to $69.5 million, or $0.59 per diluted share[(1)], from $53.4 million, or $0.46 per diluted share in YTD 2018.

Summary of Factors Affecting Performance

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

Our Brand

Aritzia is a growing, vertically integrated, innovative design house of exclusive fashion brands that creates and develops fashion apparel. We have become a well known and deeply loved brand by our clients in Canada with growing client awareness and affinity in the United States and outside of North America. Maintaining, enhancing and growing our brand appeal within our addressable market is critical to our continued success.

Product Innovation and Merchandise Planning Strategy

We believe that our differentiated multi-brand strategy is a key driver of our continued year-over-year net revenue growth and comparable sales growth. Each of our exclusive brands is treated as an independent label with its own vision and aesthetic point of view, and is supported by our own dedicated in-house design team focused on creating beautiful products. At the end of August 2018, we launched our denim brand, which has already seen strong sales. We believe our expansion into categories such as denim will help drive increased wallet share among our existing clients as well as attract new clients. Our demand-driven merchandise planning, buying and inventory strategies have been developed and refined over many years, and are

designed to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place.

Boutique Network Expansion and Enhancement

We have a meaningful opportunity to continue to grow our boutique network across North America, particularly in the United States. Our growing brand awareness among both consumers and landlords continues to fuel new opportunities to secure premier locations in the best markets. In addition to opening new Aritzia and exclusive brand boutiques (e.g. Wilfred, Babaton and TNA), we have generated attractive returns on capital by enhancing elements of our existing boutiques (including footprint, layout and assortment) through carefully considered boutique expansions and repositions. As a result of our disciplined real estate selection process and compelling boutique economics, we have never closed an Aritzia boutique in our 34-year history.

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

	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Number of boutiques, beginning of period	90	83	85	79
New boutiques	2	1	7	5
Number of boutiques, end of period	92	84	92	84
Boutiques expanded or repositioned	-	3	3	5

eCommerce Growth

Our eCommerce business was launched in fiscal 2013 and quickly surpassed our growth expectations with continued growth in online traffic.

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

- *Capitalizing on digital marketing channels to drive client acquisition and retention* - We are focusing on digital marketing to engage our existing clients, acquire new clients and drive further brand awareness. Digital marketing programs include search engine optimization enhancements, refinement of our email marketing and further leveraging our social media.

- *Improving the digital experience to enhance the shopping experience online* – *aritzia.com* is an evolving digital representation of our brand, which is designed to inspire our clients' digital shopping experience at every touch point of their journey.

- *Growing our clienteling program using personalization* – We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our clients which will enable us to predict their needs and exceed their expectations. This includes optimizing our online operations to enhance personalization, which we believe will allow us to tailor an experience specific to a client and drive higher conversion and client loyalty.

- *Driving our omni-channel growth and capabilities* – Our clients shop both online and in our boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefiting the other through increased brand awareness and affinity. The successful implementation of our new point-of-sale system is the foundation for a multi-year strategy that is intended to align our people, processes and systems so our clients can shop and receive our products through any of our channels they choose.

- *Enhancing our efforts in international eCommerce business* – Our work to enhance our international website, together with our ability to ship to international markets via *aritzia.com* is setting the foundation for future expansion by gaining brand awareness, gathering intelligence, and identifying international markets to expand our boutique network.

Sourcing and Production

We contract and maintain direct relationships with a diversified base of independent suppliers and manufacturers for our exclusive brands, which provide us with the flexibility to source high quality materials and products at competitive costs. We source the majority of our raw materials directly from suppliers and manufacturers, which we believe to be best-in-class, located primarily in Asia and Europe that uphold our standards for quality, lead time and cost. By partnering closely with long-standing manufacturers as well as adding new innovative and scalable manufacturers, we have been able to drive lower product costs. We also maintain a formalized quality assurance program whereby we inspect our manufacturers' factories to ensure quality control. We engage independent expert service providers to conduct factory audits for compliance with local laws and regulations and global standards.

Infrastructure Investments

We continue to strategically invest in infrastructure to safeguard and maximize our existing business, as well as enable growth. In October 2017, we successfully completed the implementation of our new point-of-sale ("POS") system in all of our Canadian boutiques and our customer care centre following the POS system implementation in our US boutiques in September 2017. The new POS system provides us with a robust platform on which to build and evolve the services and experience we offer to our clients. It has provided us with world class infrastructure, labour efficiencies, greater access to more reliable data and specifically, a foundation to evolve our omni-channel and clienteling capabilities. The new POS system provides near real-time visibility to inventory and sales data. This has already allowed us to respond more nimbly in managing our inventory to maximize sales, as well as begin providing true omni-channel capabilities to give our clients even more flexibility in how they shop and receive Aritzia products. We implemented verified eCommerce returns and integrated payments, which allows us to improve client experience.

In August 2018, we successfully completed the opening of our Greater Vancouver distribution centre, moving from an 83,000 square foot facility into a new 225,000 square foot flagship facility with an upgraded warehouse-management system. The new distribution centre primarily services the west coast and serves as a hub for the rest of our network.

The next business transforming foundational technology we are implementing is the Product Lifecycle Management ("PLM") system. The PLM system will manage all of the data and support all of the processes to bring a product to market. This will enable us to focus on innovation, drive quality, reduce speed to market where appropriate, and ultimately, optimize costs in our manufacturing processes.

We are also working to drive our digital strategy, which is creating additional opportunities throughout the organization as we use digital tools to heighten our clients' overall experience with the brand. Our focus on building our digital infrastructure impacts everything we do. In our view, digital is about more than just our technology and eCommerce business, it runs through the business all the way from design to the service we deliver in boutiques.

We also continue to expand our talent pool across the organization. We are continuing to find exceptional talent at all levels to facilitate our expected future growth.

These investments in systems, infrastructure and people are expected to drive increased efficiencies and enable our growth for the long term.

Consumer Trends

The women's apparel industry is subject to shifts in consumer trends, preferences and consumer spending and our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. Our differentiated multi-brand strategy gives us control over our products and provides us with the flexibility to optimize our brand mix as needed to address changes in consumer demand and fashion preferences, which has been a critical driver of the consistency of our growth. Our diversified mix of exclusive brands satisfies a broad range of fashion needs, which allows us to attract a wide client base and increases our addressable market. Our revenue is also impacted by discretionary spending by consumers, which is affected by many factors that are beyond our control, including, but not limited to, general economic conditions,

consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods and the effects of weather or natural disasters. We believe that our track record demonstrates the success of our exclusive brand strategy at responding to changes in fashion demands through all stages of economic cycles.

Seasonality

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

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

First fiscal quarter	19%
Second fiscal quarter	23%
Third fiscal quarter	28%
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 sales of these seasonal items.

Competition

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

Foreign Exchange

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

How We Assess the Performance of Our Business

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

Net Revenue

Net revenue reflects our sale of merchandise, less returns and discounts. Retail revenue at point-of-sale is measured at the fair value of the consideration received at the time the sale is made to the customer, net of discounts and an estimated allowance for returns. For merchandise that is ordered and paid in a boutique and subsequently picked up by or delivered to the customer, revenue is deferred until control of the merchandise has been transferred to the customer. eCommerce revenue is recognized at the date control has been transferred to the customer, and measured at the fair value of consideration received, net of discounts and an estimated allowance for returns. Revenues are reported net of sales taxes collected for various governmental agencies. See "Significant New Accounting Standards Recently Adopted – IFRS 15 – Revenue from Contracts with Customers."

Comparable Sales Growth

Comparable sales growth is a retail industry metric used to compare the percentage change in sales derived from the established boutiques of a certain period as compared to the sales from the same boutiques in the same period in the prior year. Comparable sales growth helps to explain our revenue growth in established boutiques and eCommerce. Comparable sales is calculated based on revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts), and excludes boutiques that were expanded or repositioned, boutiques in centres where we opened a new additional boutique and boutiques significantly impacted by nearby construction and other similar disruptions during this period. 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).

Gross Profit

Gross profit reflects our net revenue less cost of goods sold. Cost of goods sold includes inventory and product-related costs and occupancy costs, as well as depreciation and amortization expense for our boutiques and distribution centres. 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. Currently our product costs have been pressured by rising materials costs, particularly wool, silk, down, cotton and polyester. We define gross profit margin as our gross profit divided by our net revenues.

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

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

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

EBITDA

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

Adjusted EBITDA

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

Adjusted Net Income (per diluted share)

We believe Adjusted Net Income (per diluted share) is a useful measure of performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted Net Income to facilitate a comparison of our performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted Net Income as consolidated net income, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized foreign exchange gains or losses on forward contracts and other items we consider non-recurring and not representative of our ongoing operating performance, net of related tax effects. We define Adjusted Net Income per diluted share by dividing Adjusted Net Income by the weighted average number of diluted shares outstanding. For purposes of reporting our Adjusted Net Income per diluted share, we have adopted the IFRS method for calculating weighted average number of diluted shares outstanding since Q1 2019. Please see "Summary of Consolidated Quarterly Results and Certain Performance Measures" for a comparison of the impact of the current diluted share calculation versus our prior methodology.

Selected Consolidated Financial Information

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

	Q3 2019 13 weeks	Q3 2018 13 weeks	YTD 2019 39 weeks	YTD 2018 39 weeks
	(in thousands of Canadian dollars, unless otherwise noted)			
Consolidated Statements of Operations:				
Net revenue	$ 242,876	$ 204,449	$ 615,246	$ 523,463
Cost of goods sold	138,087	112,911	366,180	311,257
Gross profit	104,789	91,538	249,066	212,206
Operating expenses				
Selling, general and administrative	56,554	47,704	156,371	133,119
Stock-based compensation expense	2,896	3,930	8,944	11,641
Income from operations	45,339	39,904	83,751	67,446
Finance expense	1,101	1,255	3,602	3,903
Other (income) expense	(1,403)	(2,013)	(5,234)	2,181
Income before income taxes	45,641	40,662	85,383	61,362
Income tax expense	13,041	12,589	25,378	20,170
Net income	$ 32,600	$ 28,073	$ 60,005	$ 41,192
Percentage of Net Revenue:				
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	56.9%	55.2%	59.5%	59.5%
Gross profit	43.1%	44.8%	40.5%	40.5%
Operating expenses				
Selling, general and administrative	23.3%	23.3%	25.4%	25.4%
Stock-based compensation expense	1.2%	1.9%	1.5%	2.2%
Income from operations	18.7%	19.5%	13.6%	12.9%
Finance expense	0.5%	0.6%	0.6%	0.7%
Other (income) expense	(0.6%)	(1.0%)	(0.9%)	0.4%
Income before income taxes	18.8%	19.9%	13.9%	11.7%
Income tax expense	5.4%	6.2%	4.1%	3.9%
Net income	13.4%	13.7%	9.8%	7.9%
Other Performance Measures:				
Year-over-year net revenue growth	18.8%	9.6%	17.5%	11.2%
Comparable sales growth	12.9%	6.3%	11.9%	6.7%
Capital cash expenditures (excluding proceeds from leasehold inducements)	$ 13,073	$ 18,128	$ 47,333	$ 47,546
Number of boutiques, end of period	92	84	92	84
New boutiques added	2	1	7	5
Boutiques expanded or repositioned	-	3	3	5

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

	Q3 2019 13 weeks	Q3 2018 13 weeks	YTD 2019 39 weeks	YTD 2018 39 weeks
	(in thousands of Canadian dollars, unless otherwise noted)			
Reconciliation of Net Income to Adjusted EBITDA:				
Net income	$ 32,600	$ 28,073	$ 60,005	$ 41,192
Depreciation and amortization	6,858	6,029	19,710	16,883
Finance expense	1,101	1,255	3,602	3,903
Income tax expense	13,041	12,589	25,378	20,170
EBITDA	53,600	47,946	108,695	82,148
Adjustments to EBITDA:				
Stock-based compensation expense	2,896	3,930	8,944	11,641
Unrealized foreign exchange loss (gain) on forward contracts	597	(1,914)	415	465
Other non-recurring items [(2)]	-	-	423	361
Adjusted EBITDA	$ 57,093	$ 49,962	$ 118,477	$ 94,615
Adjusted EBITDA as a Percentage of Net Revenue	23.5%	24.4%	19.3%	18.1%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	$ 32,600	$ 28,073	$ 60,005	$ 41,192
Adjustments to net income:				
Stock-based compensation expense	2,896	3,930	8,944	11,641
Unrealized foreign exchange loss (gain) on forward contracts	597	(1,914)	415	465
Other non-recurring items [(2)]	-	-	423	361
Related tax effects	(160)	506	(316)	(214)
Adjusted Net Income	$ 35,933	$ 30,595	$ 69,471	$ 53,445
Adjusted Net Income as a Percentage of Net Revenue	14.8%	15.0%	11.3%	10.2%
Weighted Average Number of Diluted Shares Outstanding (thousands)	117,681	116,168	117,328	116,198
Adjusted Net Income per Diluted Share	$ 0.31	$ 0.26	$ 0.59	$ 0.46

Notes:

(2) Other non-recurring items in YTD 2019 relate to Secondary Offering transaction costs, and in YTD 2018 relate to separation costs related to a senior Company executive departure.

	Q3 2019 13 weeks	Q3 2018 13 weeks	YTD 2019 39 weeks	YTD 2018 39 weeks
	(in thousands of Canadian dollars, unless otherwise noted)			
Reconciliation of Comparable Sales to Net Revenue:				
Comparable sales[3]	$ 174,077	$ 149,475	$ 440,869	$ 380,019
Non-comparable sales	68,799	54,974	174,377	143,444
Net revenue	$ 242,876	$ 204,449	$ 615,246	$ 523,463

Notes:

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

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

	As at November 25, 2018	As at February 25, 2018 (restated)[4]
Selected Consolidated Financial Position Data:		
Total assets	$ 636,114	$ 568,376
Total non-current liabilities	163,464	176,948

Notes:

(4) See the section below entitled "Significant New Accounting Standards Recently Adopted" for further details concerning the restatement relating to the adoption of new accounting standards.

Results of Operations

Analysis of Results for Q3 2019 to Q3 2018

The following section provides an overview of our financial performance during Q3 2019 compared to Q3 2018.

Net Revenue

Net revenue increased by 18.8% to $242.9 million in Q3 2019 from $204.4 million in Q3 2018. The net revenue increase was primarily driven by comparable sales growth of 12.9%, resulting from continued momentum in our eCommerce business as well as strong performance in our boutiques across all geographies. Net revenue growth also reflects the addition of eight new boutiques and five expanded or repositioned boutiques since Q3 2018.

Gross Profit

Gross profit increased by 14.5% to $104.8 million, or 43.1% of net revenue in Q3 2019, compared to $91.5 million, or 44.8% of net revenue, in Q3 2018. The 170 basis point decrease in gross profit margin was due primarily to a 110 basis point impact related to the weakening of the Canadian dollar compared to last year. The remainder of the margin decrease was primarily driven by higher raw material costs partially offset by ongoing sourcing initiatives. Markdown rates were flat compared to last year.

SG&A Expenses

SG&A expenses increased by 18.6% to $56.6 million, compared to $47.7 million in Q3 2018. SG&A expenses were 23.3% of net revenue, effectively flat compared to the same period last year. Leverage on fixed costs was offset by continued investments in our strategic growth initiatives and infrastructure investments.

Other Income

Other income was $1.4 million in Q3 2019, compared to other income of $2.0 million in Q3 2018.

Other income of $1.4 million in Q3 2019 primarily relates to:

- realized foreign exchange gains on the settlement of forward contracts of $0.8 million;
- unrealized and realized operational foreign exchange gains of $0.9 million;
- interest income of $0.3 million; partially offset by
- unrealized foreign exchange losses on forward contracts of $0.6 million.

Other income of $2.0 million in Q3 2018 primarily relates to:

- unrealized foreign exchange gains on forward contracts of $1.9 million;
- unrealized and realized operational foreign exchange gains of $0.7 million;
- interest income of $0.2 million; partially offset by
- realized foreign exchange losses on the settlement of forward contracts of $0.8 million.

Adjusted EBITDA

Adjusted EBITDA increased by 14.3% to $57.1 million, or 23.5% of net revenue in Q3 2019, compared to $50.0 million, or 24.4% of net revenue in Q3 2018, primarily due to the factors described above.

Stock-Based Compensation Expense

Stock-based compensation expense decreased by $1.0 million to $2.9 million in Q3 2019, compared to $3.9 million in Q3 2018.

Included in Q3 2019 is $2.1 million in expenses related to the accounting of options under our new option plan, $0.6 million in expenses related to the accounting for options under our legacy option plan and $0.2 million in expenses related to the accounting for our deferred share units. Included in Q3 2018 is $2.2 million in expenses related to the accounting of options under our new option plan, $1.6 million in expenses related to the accounting for options under our legacy option plan and $0.1 million in expenses related to the accounting for our deferred share units.

Finance Expense

Finance expense decreased by $0.2 million to $1.1 million in Q3 2019, compared to $1.3 million in Q3 2018. The decrease was primarily driven by lower average debt outstanding associated with the amendment of our credit facilities in June 2018, partially offset by higher interest rates.

Income Tax Expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for Q3 2019 and Q3 2018 were 26.9% and 26.4%, respectively.

Income tax expense increased by $0.4 million to $13.0 million in Q3 2019, compared to $12.6 million in Q3 2018 and the effective tax rates for Q3 2019 and Q3 2018 were 28.6% and 31.0%, respectively. The increase in income tax expense is due to an increase in income from operations. The decrease in the effective tax rate compared to Q3 2018 is due to a decrease in the amount of stock-based compensation expense in Q3 2019, which is not deductible for tax purposes.

Net Income

Net income increased by 16.1% to $32.6 million in Q3 2019, compared to $28.1 million in Q3 2018. This increase is primarily the result of an 18.8% increase in net revenue, an increase in gross profit margin and other income, and a decrease in stock-based compensation expense and finance expense, partially offset by lower gross profit margin and other income as well as an increase in income tax expense.

Adjusted Net Income

Adjusted Net Income increased by 17.4% to $35.9 million, or $0.31 per diluted share in Q3 2019, compared to $30.6 million, or $0.26 per diluted share in Q3 2018 primarily due to the factors described above.

Analysis of Results for YTD 2019 to YTD 2018

The following section provides an overview of our financial performance during YTD 2019 compared to YTD 2018.

Net Revenue

Net revenue increased by 17.5% to $615.2 million in YTD 2019 from $523.5 million in YTD 2018. The increase was primarily driven by our new, expanded and repositioned boutiques and comparable sales growth of 11.9%, resulting from continued momentum in our eCommerce business and boutiques.

Gross Profit

Gross profit increased by 17.4% to $249.1 million, or 40.5% of net revenue in YTD 2019, compared to $212.2 million, or 40.5% of net revenue in YTD 2018.

SG&A Expenses

SG&A expenses increased by 17.5% to $156.4 million, or 25.4% of net revenue in YTD 2019, compared to $133.1 million, or 25.4% of net revenue in YTD 2018. Excluding Secondary Offering transaction costs of $0.4 million, SG&A expenses were $156.0 million, or a normalized 25.3% of net revenue in YTD 2019. The increase in SG&A expenses was primarily due to variable selling expenses driven by higher sales volume, as well as the impact from continued investments in our strategic growth initiatives and infrastructure investments.

Other (Income) Expense

Other income was $5.2 million in YTD 2019, compared to other expense of $2.2 million in YTD 2018.

Other income of $5.2 million in YTD 2019 primarily relates to:

- realized foreign exchange gains on the settlement of forward contracts of $2.3 million;
- realized and unrealized operational foreign exchange gains of $2.3 million; and
- interest income of $1.0 million; partially offset by
- unrealized foreign exchange losses on forward contracts of $0.4 million.

Other expense of $2.2 million in YTD 2018 primarily relates to:

- realized foreign exchange losses on the settlement of forward contracts of $1.5 million;
- realized and unrealized operational foreign exchange losses of $0.7 million;
- unrealized foreign exchange losses on forward contracts of $0.5 million; partially offset by
- interest income of $0.5 million.

Adjusted EBITDA

Adjusted EBITDA increased by 25.2% to $118.5 million, or 19.3% of net revenue in YTD 2019, compared to $94.6 million, or 18.1% of net revenue in YTD 2018 primarily due to the factors described above.

Stock-Based Compensation Expense

Stock-based compensation decreased by $2.7 million to $8.9 million in YTD 2019, compared to $11.6 million in YTD 2018.

Included in YTD 2019 is $6.5 million in expenses related to the accounting of options under our new option plan, $1.9 million in expenses related to the accounting for options under our legacy option plan and $0.5 million in expenses related to the accounting for our deferred share units. Included in YTD 2018 is $6.8 million in expenses related to the accounting of options under our new option plan, $4.5 million in expenses related to the accounting for options under our legacy option plan and $0.3 million in expenses related to the accounting for our deferred share units.

Finance Expense

Finance expense decreased by $0.3 million to $3.6 million in YTD 2019, compared to $3.9 million in YTD 2018. The decrease is primarily driven by lower average debt outstanding associated with the amendment of our credit facilities in June 2018, partially offset by higher interest rates.

Income Tax Expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for YTD 2019 and YTD 2018 were 26.9% and 26.4%, respectively.

Income tax expense increased by $5.2 million to $25.4 million in YTD 2019, compared to $20.2 million in YTD 2018 and the effective tax rates for YTD 2019 and YTD 2018 were 29.7% and 32.9%, respectively. The increase in income tax expense is due to an increase in income from operations. The decrease in the effective tax rate compared to YTD 2018 is due to a decrease in the amount of stock-based compensation expense and foreign rate difference resulting from a reduced U.S. statutory income tax rate following the U.S. Tax Cuts and Jobs Act.

Net Income

Net income increased by 45.7% to $60.0 million in YTD 2019, compared to net income of $41.2 million in YTD 2018. This increase is primarily the result of a 17.5% increase in net revenue and an increase in other income, as well as a decrease in stock-based compensation expense and finance expense, partially offset by higher SG&A expenses and income tax expense.

Adjusted Net Income

Adjusted Net Income increased by 30.0% to $69.5 million, or $0.59 per diluted share in YTD 2019, compared to $53.4 million, or $0.46 per diluted share in YTD 2018, primarily due to the factors described above.

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 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.

	Fiscal 2019			Fiscal 2018				Fiscal 2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(in thousands of Canadian dollars)							
Consolidated Statements of Operations:								
Net revenue	$ 242,876	$ 205,359	$ 167,011	$ 219,804	$ 204,449	$ 173,968	$ 145,046	$ 196,396
Gross profit	104,789	76,734	67,543	83,285	91,538	63,130	57,538	75,368
Income from operations	45,339	21,681	16,731	26,948	39,904	15,514	12,028	21,484
Net income	32,600	15,115	12,290	15,901	28,073	4,990	8,129	11,528
Percentage of Net Revenue:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	43.1%	37.4%	40.4%	37.9%	44.8%	36.3%	39.7%	38.4%
Income from operations	18.7%	10.6%	10.0%	12.3%	19.5%	8.9%	8.3%	10.9%
Net income	13.4%	7.4%	7.4%	7.2%	13.7%	2.9%	5.6%	5.9%
Adjusted EBITDA [5]	$ 57,093	$ 33,032	$ 28,352	$ 38,101	$ 49,962	$ 20,700	$ 23,953	$ 32,281
Adjusted Net Income [5]	35,933	18,295	15,243	22,489	30,595	10,380	12,470	18,284
Weighted average number of diluted shares – IFRS (in thousands)	117,681	117,410	116,780	116,622	116,168	116,244	116,375	116,515
Total number of diluted shares – prior methodology (in thousands)	118,785	117,995	117,519	117,253	116,851	116,745	117,206	117,409
Other Performance Measures:								
Comparable Sales Growth[5]	12.9%	11.5%	10.9%	6.0%	6.3%	5.4%	9.3%	12.3%
Boutiques								
Number of boutiques, beginning of period	90	87	85	84	83	81	79	77
New boutiques	2	3	2	1	1	2	2	2
Number of boutiques, end of period	92	90	87	85	84	83	81	79
Boutiques expanded or repositioned	-	1	2	2	3	1	1	-

Note:

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

Liquidity and Capital Resources

Overview

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

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

Credit Facilities

On June 28, 2018, we amended our term loan and revolving credit facility (collectively the "Credit Facilities") with our syndicate of lenders. The amendment agreement included a reduction of the term loan from $118.7 million to $75.0 million and an increase of the revolving credit facility from $70.0 million to $100.0 million. The amended Credit Facilities mature on May 22, 2022 and have no scheduled principal payments prior to maturity. Interest is paid on a monthly basis. Under the amended Credit Facilities, we have the option to borrow using Banker's Acceptance borrowings, LIBO rate borrowings, or Canadian prime rate borrowings plus a marginal interest rate between 0.50% and 2.50%. As part of the amendment, we made a $43.7 million term loan repayment on June 27, 2018.

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

As at November 25, 2018, the aggregate amount outstanding under our term loan credit facility was $75.0 million. No amounts were drawn on the revolving credit facility as at November 25, 2018. The term loan credit facility requires mandatory loan prepayments by us of principal and interest if certain events occur. See "Contractual Obligations – Off-Balance Sheet Arrangements and Commitments" for letters of credit issued.

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

Cash Flows

The following table presents cash flows for the periods indicated.

	Q3 2019 13 weeks	Q3 2018 13 weeks	YTD 2019 39 weeks	YTD 2018 39 weeks
	(in thousands of Canadian dollars)			
Net cash generated from operating activities	$ 81,461	$ 63,218	$ 103,561	$ 66,549
Net cash (used in) generated from financing activities	(632)	3,817	(46,137)	6,720
Net cash used in investing activities	(13,073)	(18,128)	(47,333)	(47,546)
Effect of exchange rate changes on cash and cash equivalents	289	110	474	(71)
Increase in cash and cash equivalents	$ 68,045	$ 49,017	$ 10,565	$ 25,652

Analysis of Cash Flows for the Third Quarter and YTD

Cash Flows Generated from Operating Activities

For Q3 2019, cash flows generated by operating activities totaled $81.5 million, compared to cash flows of $63.2 million generated in Q3 2018. This change was primarily attributable to higher Adjusted EBITDA, an increase in proceeds received from deferred lease inducements and lower use of working capital due to the timing of certain payments and a higher amount of deferred revenue, partially offset by higher income tax payments made.

For YTD 2019, cash flows generated by operating activities totaled $103.6 million, compared to $66.5 million in YTD 2018. This change was primarily attributable to higher Adjusted EBITDA, increase in proceeds received from deferred lease inducements and lower income tax payments made in YTD 2019, partially offset by a higher use of working capital due to the timing of certain payments and partially offset by a higher amount of deferred revenue.

Cash Flows (Used in) Generated From Financing Activities

For Q3 2019, cash flows used in financing activities totaled $0.6 million, compared to cash flows of $3.8 million generated in Q3 2018. This change was primarily due to the repurchase of subordinate voting shares for cancellation in Q3 2019 under our normal course issuer bid.

For YTD 2019, cash flows used in financing activities totaled $46.1 million, compared to cash flows of $6.7 million generated in YTD 2018. This change was primarily due to a $43.7 million term loan repayment made in Q2 2019 as a result of our debt refinancing and the repurchase of subordinate voting shares for cancellation in YTD 2019 under our normal course issuer bid. See "Current Share Information" below.

Cash Flows Used in Investing Activities

For Q3 2019, cash flows used in investing activities totaled $13.1 million, compared to $18.1 million in Q3 2018. Investing activities in Q3 2019 relate to new boutiques and boutique expansions and repositions.

For YTD 2019, cash flows used in investing activities totaled $47.3 million, compared to $47.5 million in YTD 2018. Investing activities in YTD 2019 relate to new boutiques and boutique expansions and repositions, as well as investment in our new Vancouver distribution centre.

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at November 25, 2018.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Accounts payable and accrued liabilities	$ 80,974	$ -	$ -	$ 80,974
Assumed interest on long-term debt[7]	2,781	6,769	-	9,550
Debt[8]	-	75,000	-	75,000
Total contractual obligations	$ 83,755	$ 81,769	$ -	$ 165,524

Notes:

(7) Based on interest rate in effect as at November 25, 2018.

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

Off-Balance Sheet Arrangements and Commitments

The following table summarizes our off-balance sheet arrangements and commitments as at November 25, 2018.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Operating leases	$ 83,129	$ 339,233	$ 234,864	$ 657,226
Purchase obligations	29,094	-	-	29,094
Total off-balance sheet arrangements and commitments	$ 112,223	$ 339,233	$ 234,864	$ 686,320

Operating leases for certain of our premises include renewal options, rent escalation clauses and free-rent periods. The operating lease commitment reflects minimum annual commitments for the operating leases for our premises (excluding other occupancy charges and rent based on a percentage of revenue).

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at November 25, 2018, we had $29.1 million of raw materials not already included for use in purchase orders.

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 25, 2018, letters of credit totaling $30.6 million have been issued.

Other than those items disclosed here and elsewhere in this MD&A and our consolidated financial statements, we do not have any material off-balance sheet arrangements or commitments as at November 25, 2018.

Subsequent to period end, we entered into additional operating leases, increasing the total minimum lease commitments by $3.4 million (excluding other occupancy charges and additional rent based on percentage of sales).

See also "Significant New Accounting Standards Issued But Not Yet Adopted – IFRS 16 – Leases" below.

Financial Instruments

From time to time, we use foreign currency forward contracts to manage our exposure to fluctuations with respect to the U.S. dollar for U.S. dollar merchandise purchases sold in Canada. The fair value of the forward contracts is included in prepaid expenses and other current assets or in accounts payable and accrued liabilities, depending on whether they represent assets or liabilities to us. Changes in the fair value of foreign currency forward contracts are recorded in net income. As at November 25, 2018, we did not have any outstanding foreign currency forward contracts.

Related Party Transactions *(in thousands of Canadian dollars unless otherwise indicated)*

Berkshire Partners LLC ("Berkshire") is the investment manager to private equity funds that indirectly hold an interest in us.

Total net reimbursements to Berkshire for travel, lodging and other costs for the 13-week and 39-week periods ended November 25, 2018 were $20 and $49, respectively (13-week and 39-week periods ended November 26, 2017 - $nil and $34, respectively). At November 25, 2018, $nil was included in accounts payable and accrued liabilities (February 25, 2018 - $66).

In connection with our initial public offering, we reimbursed in aggregate $1.4 million in professional fees and other costs to the principal selling shareholders in accordance with our obligations under the registration rights agreement. At November 25, 2018, $681 was included in accounts payable and accrued liabilities (February 25, 2018 - $652).

During the 13-week and 39-week periods ended November 25, 2018, we paid $1.0 million and $3.1 million, respectively (13-week and 39-week periods ended November 26, 2017 – $929 and $2.6 million, respectively), for rent of premises and $203 and $660, respectively (13-week and 39-week periods ended November 26, 2017 - $105 and $105, for the use of a leased asset wholly or partially owned by companies that are owned by a director and officer of the Company. At November 25, 2018, $152 was included in accounts payable and accrued liabilities (February 25, 2018 - $100).

During the 26-week period ended August 27, 2017, we purchased $8.2 million of merchandise from a company partially owned by private equity funds managed by Berkshire. In August 2017, Berkshire exited its investment from the merchandise company; as such, purchases from the merchandise company subsequent to August 2017 are not considered related party transactions.

Transactions with Key Management

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

	Q3 2019 13 weeks	Q3 2018 13 weeks	YTD 2019 39 weeks	YTD 2018 39 weeks
	(in thousands of Canadian dollars)			
Salaries, directors' fees and short-term benefits	$ 875	$ 739	$ 2,498	$ 2,265
Stock-based compensation expense	1,021	1,142	3,050	4,032
	$ 1,896	$ 1,881	$ 5,548	$ 6,297

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:

Valuation of Finished Goods Inventory

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

We periodically review our inventories and make provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, we accrue for inventory shrinkage for lost or stolen items based on historical trends from actual physical inventory counts.

Impairment of Assets

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

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

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

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

Stock-Based Compensation Expense

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

Income Tax Expense

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

Significant New Accounting Standards Recently Adopted

IFRS 15 – Revenue from Contracts with Customers

Effective February 26, 2018, we adopted IFRS 15 issued in May 2014, and amended in September 2015 and April 2016. IFRS 15 outlines a single comprehensive five-step framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. We adopted the standard using the full retrospective approach. The adoption of IFRS 15 did not have a material impact on our consolidated financial statements other than on the recognition of our sales return allowance. Under IAS 18, "Revenue", the sales return allowance on the consolidated Statement of Financial Position was recognized on a net basis, with no adjustment to other current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the Statement of Financial Position line items noted below. As the impact is limited to these two financial statement line items, a February 25, 2018 opening Statement of Financial Position has not been presented.

Under IFRS 15, we recognize revenue when control of the goods or services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which we expect to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

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

Revenues are reported net of sales taxes collected for various governmental agencies.

Receipts from the sale of gift cards are treated as deferred revenue. When gift cards are redeemed for merchandise, we recognize the related revenue. We estimate gift card breakage, to the extent there is no requirement for remitting card balances to government agencies under unclaimed property laws, and recognize revenue in proportion to actual gift card redemptions as a component of net revenue.

We recognize promotional gift cards as a reduction of revenue upon redemption.

The financial impact of the adoption of IFRS 15 is as follows:

	As at February 25, 2018			As at February 26, 2017			As at November 26, 2017		
	As previously reported	IFRS 15 adjustments	As restated	As previously reported	IFRS 15 adjustments	As restated	As previously reported	IFRS 15 adjustments	As restated
Prepaid expenses and other current assets	15,307	698	16,005	12,743	696	13,439	12,788	1,046	13,834
Accounts payable and accrued liabilities[1]	66,594	698	67,292	51,250	696	51,946	66,147	1,046	67,193

[1] Includes current portion of lease obligation

IFRS 9 – Financial Instruments: Classification and Measurement and Impairment

Effective February 26, 2018, we adopted (i) IFRS 9, issued in July 2014, which replaces IAS 39, "Financial Instruments: Recognition and Measurement", and (ii) related amendments to IFRS 7, "Financial Instruments: Disclosures". The new standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. We applied the requirements of the new standard retrospectively.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. Financial assets are classified and measured based on three categories: amortized cost; fair value through other comprehensive income; or fair value through profit or loss. Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit or loss.

Our financial assets classified as loans and receivables under IAS 39 are now classified as amortized cost under IFRS 9. Our financial liabilities classified as other financial liabilities under IAS 39 are now classified as amortized cost under IFRS 9. Our foreign currency forward contracts continue to be classified as fair value through profit or loss ("FVTPL").

The adoption of IFRS 9 did not result in a material change in measurement or the carrying amount of our financial assets and liabilities.

Financial assets are subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as FVTPL: (i) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss model ("ECL"). This new model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. Our accounts receivable balance is primarily comprised of landlord lease inducement receivables. We have determined the adoption of IFRS 9 has resulted in no additional recorded impairment allowance for Q3 2019.

Amendments to IFRS 2 – Share-based Payment

Effective February 26, 2018, we adopted amendments to IFRS 2, issued in June 2016, which clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax

obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018. The adoption of the amendments to IFRS 2 did not have a material impact on our consolidated financial statements.

Significant New Accounting Standards Issued But Not Yet Adopted

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17, "Leases". The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been adopted.

While we are currently evaluating the impact this new guidance will have on our consolidated financial statements, adoption of IFRS 16 is expected to significantly increase the assets and liabilities on the consolidated statement of financial position as the majority of leases disclosed in the "Off-Balance Sheet Arrangements and Commitments" section of this MD&A are in scope for IFRS 16. The new guidance is also expected to have a significant impact on the recognition, measurement and presentation of lease expenses in the consolidated statement of operations as well as a change in the operating and financing cash flows presented in the consolidated statement of cash flows. We currently expect to use the modified retrospective method of adoption along with the following practical expedients, as described under IFRS 16:

i) recognition exemption of short term leases;

ii) recognition exemption of low-value leases; and

iii) grandfather prior conclusions on contracts containing leases.

We will apply the new standard for Fiscal 2020.

Annual Improvements

In December 2017, the IASB issued amendments to IAS 12, "Income Taxes" and IAS 23, "Borrowing Costs" to clarify existing requirements. These clarification amendments will be effective for annual periods beginning on or after January 1, 2019. The implementation of these clarification amendments is not expected to have a material impact on our consolidated financial statements.

Outlook

We had an exceptional fall/winter season. Including the increasing prominence of the Black Friday sale period in Canada, which pulled revenue from the fourth quarter into the third quarter, we are expecting a healthy yet uneventful end of season sale period. We expect comparable sales growth in the mid-single digits for the fourth quarter. We are excited for our spring launch at the end of February.

For Fiscal 2019, we continue to expect to deliver mid-teens revenue growth and consistent Adjusted EBITDA margin, as compared to Fiscal 2018. This assumes:

- Seven new boutiques already opened in the year.

- Five boutique expansions/repositions, including the three opened year-to-date and two planned for the end of the fourth quarter.
- Two pop-up boutiques including Santana Row in San Jose, which opened in the second quarter, and Old Orchard in Chicago, which opened in the third quarter.
- Gross profit margin down moderately as compared to Fiscal 2018 as a result of increased foreign exchange pressure and higher raw material costs being partially offset by ongoing sourcing initiatives.
- SG&A to grow proportionately with revenue growth, while we continue to make strategic investments in people, technology and infrastructure.
- Net capital expenditures in the range of $45 million to $50 million.

For Fiscal 2020, our boutique pipeline will mark the largest single year expansion in the United States. The pipeline for Fiscal 2020 includes:

- Approximately six new boutiques, all in the United States.
- Three to four boutique expansions/repositions.

Overall, we remain on track to meet or exceed our stated fiscal 2021 performance targets.

See "Forward-Looking Information".

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of our AIF, which is available on SEDAR at *www.sedar.com*.

In addition, we are exposed to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit and liquidity 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 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 and liquidity risk.

Foreign Exchange Risk

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

Interest Rate Risk

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

Credit Risk

Credit risk refers to the possibility that we can suffer financial losses due to the failure of our counterparties to meet their payment obligations. We are exposed to minimal credit risk. We do not extend credit to our 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.

Disclosure Controls and Internal Control over Financial Reporting

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

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting in Q3 2019 that materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Current Share Information

On May 10, 2018, we announced the commencement of a normal course issuer bid ("NCIB") to purchase and cancel up to 5,429,658 subordinate voting shares commencing May 15, 2018 and ending May 14, 2019. During the 13-week and 39-week periods ended November 25, 2018, we repurchased a total of 304,180 and 549,880 subordinate voting shares, respectively, for cancellation at an average price of $18.35 and $17.07, respectively, per subordinate voting share, for total cash consideration of $9.4 million. Subject to market conditions, we will continue repurchasing shares opportunistically.

On May 31, 2018, we entered into an automated share purchase plan ("ASPP") with a designated broker for the purpose of permitting us to purchase our subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by us under the ASPP. We record a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP. At November 25, 2018, no such liability was recorded.

Shareholders may receive a copy of the TSX notice in respect of the NCIB, without charge, by contacting the Company.

As of January 8, 2019, an aggregate of 63,935,860 subordinate voting shares, 49,876,002 multiple voting shares and no preferred shares are issued and outstanding. All of the issued and outstanding multiple voting

shares are, directly or indirectly, held or controlled by the principal shareholders. As of January 8, 2019, an aggregate of 9,921,965 options to acquire subordinate voting shares are outstanding.

Additional Information

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