ARITZIA

Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Third Quarter Ended December 1, 2019

January 9, 2020

The following Management's Discussion and Analysis ("MD&A") dated January 9, 2020 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 December 1, 2019. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes for Q3 2020 and YTD 2020 (as hereinafter defined) and the Company's audited consolidated financial statements and accompanying notes for Fiscal 2019 (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. They reflect the adoption of IFRS 16, Leases, on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. Please see "Recent Events – Adoption of IFRS 16". 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 2020" are to our 13-week period ended December 1, 2019, to "Q3 2019" are to our 13-week period ended November 25, 2018, to "YTD 2020" are to our 39-week period ended December 1, 2019 to "YTD 2019" are to our 39-week period ended November 25, 2018 and to "Q4 2020" are to our 13-week period ending March 1, 2020. All references in this MD&A to "Fiscal 2021" are to our 52-week period ending February 28, 2021, to "Fiscal 2020" are to our 52-week period ending March 1, 2020, to "Fiscal 2019" are to our 53-week period ended March 3, 2019, and to "Fiscal 2018" are to our 52-week period ended February 25, 2018.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2020 and YTD 2020 and this MD&A were authorized for issue by the Company's Board of Directors.

Non-IFRS Measures Including Retail Industry Metrics

This MD&A makes reference to certain non-IFRS measures including certain retail industry metrics. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per diluted share" and "gross profit margin". To improve the comparability of underlying

performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q3 2020 and YTD 2020 has been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16. 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 the quality of our products and our omni-channel client experience, expectations regarding key eCommerce drivers of our net revenue, the expected results of our planned multi-year Customer Program initiative and product lifecycle management system, outlook for comparable sales growth during Q4 2020 and revenue growth and gross profit margin in Fiscal 2020 as further described below, the expansion and repositioning of our boutique locations, expectations regarding the Company meeting or exceeding its stated Fiscal 2021 performance targets, 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. See also the "Outlook" section of this MD&A.

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 Fiscal 2020 to deliver low double digit revenue growth as compared to Fiscal 2019, are certain current assumptions, including, among others, comparable sales growth in Q4 2020 to be in the high-single digits, the opening of five new boutiques in the United States comprised of the three new boutiques already opened in Fiscal 2020 (Hudson Yards in Manhattan, New York, Mall of America in Minneapolis, Minnesota and Cherry Creek in Denver, Colorado) and the two expected to open at the end of Q4 2020 (Houston Galleria in Houston, Texas and the Domain in Austin, Texas), two pop-up locations already opened in Fiscal 2020 (Greenwich, Connecticut and Orchard Park, Kelowna, B.C.), three boutique expansions or repositions in Canada, already opened in Fiscal 2020 (repositioning of the Mapleview boutique in Greater Toronto, the expansion of the Rideau boutique in Ottawa, Ontario and the repositioning of the Coquitlam Centre boutique in Greater Vancouver), gross profit margin to be flat to slightly lower than Fiscal 2019 due to ongoing higher raw material costs and the effect of new tariffs from the ongoing trade dispute between the United States and China, SG&A to grow faster than revenue, as we continue to make strategic investments in technology and infrastructure to support our long term growth, a majority of the investments related to our eCommerce platform improvements, omni-channel

capabilities, digital selling tools and data analytics platforms are cloud-based and will be expensed in SG&A, incremental SG&A expenses in Fiscal 2020 related to these initiatives are expected to total approximately $8 million, with $2 million to $3 million expected to occur in Q4 2020, net capital expenditures in the range of $40 million to $45 million, assumptions regarding the overall retail environment and currency exchange rates for Fiscal 2020. Specifically, we have assumed the following exchange rates for Fiscal 2020: USD:CAD = 1:1.33.

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 progress the development of our warm weather product strategy and extended sizing; 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 9, 2019 for Fiscal 2019 (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 67 boutiques in Canada and 27 boutiques in the United States, averaging approximately 6,000 square feet, all of which are in premier locations within top-tier shopping destinations. We sell our products 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 omni-channel shopping experience and exceptional level of service at every interaction. Our culture is highly focused on the client, and our style advisors and eCommerce support teams are trained to provide shopping experiences that are personalized to exceed our clients' wants and needs.

Recent Events

Secondary Offering

On March 8, 2019, we completed a secondary offering (the "March 2019 Secondary Offering") on a bought deal basis of our subordinate voting shares through a secondary sale of shares by certain shareholders. The March 2019 Secondary Offering of 19,505,000 subordinate voting shares raised gross proceeds of $329.6 million for the selling shareholders, at a price of $16.90 per subordinate voting share (the "March 2019 Offering Price"). We did not receive any proceeds from the March 2019 Secondary Offering. Underwriting fees were paid by the selling shareholders.

Concurrent with the completion of the March 2019 Secondary Offering, on March 8, 2019, we also completed a repurchase of 6,333,653 subordinate voting shares and multiple voting shares (the "Shares") for cancellation from certain shareholders, including an investment vehicle (the "Berkshire Shareholder") managed by Berkshire Partners LLC ("Berkshire") (the "Share Repurchase"). The purchase price per Share paid by us under the Share Repurchase was the same as the March 2019 Offering Price and resulted in an aggregate purchase price of $107.0 million paid to the selling shareholders. Total expenses related to the March 2019 Secondary Offering and Share Repurchase of $2.5 million were paid by us and were reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder.

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder has no remaining equity interest in us.

Normal Course Issuer Bid

On July 11, 2019, we announced the commencement of a normal course issuer bid ("NCIB") to purchase and cancel up to 3,624,915 subordinate voting shares over the 12-month period commencing July 16, 2019 and ending July 15, 2020. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. During the 13-week and 39-week periods ended December 1, 2019 we repurchased 32,600 subordinate voting shares for cancellation at an average price of $15.97 per subordinate voting share, for total cash consideration of $0.5 million (for the 13-week and 39-week periods ended November 25, 2018, we repurchased 304,180 and 549,880 subordinate voting shares, respectively, for cancellation at an average price of $18.35 and $17.07 per subordinate voting share, respectively, for total cash consideration of $9.4 million).

On August 30, 2019, we entered into an automatic 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. Such purchases are determined by the broker in its sole discretion based on parameters established by us. All purchases made under the ASPP will be included in computing the number of subordinate voting shares purchased under the NCIB. We record a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP. At December 1, 2019, no such liability was recorded.

Adoption of IFRS 16

We adopted IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases ("IAS 17") and related interpretations, using the modified retrospective approach, effective for the annual reporting period beginning on March 4, 2019. As a result, our results for Q3 2020 reflect lease accounting under IFRS 16. Comparative figures for Q3 2019 have not been restated and continue to be reported under IAS 17.

Our financial reporting is impacted by the adoption of IFRS 16. Certain lease-related expenses previously recorded as occupancy costs are now recorded as depreciation expense for right-of-use assets and as interest expense for related lease liabilities. The depreciation expense is recognized on a straight-line basis over the term of the lease, while the interest expense declines over the life of the lease, as the liability is paid off.

For analysis purposes only, this MD&A also shows, where applicable, amounts for the third quarter of 2020 as if we continued to report under IAS 17, and did not adopt IFRS 16.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)	**Q3 2020 13 weeks**	**Q3 2020 13 weeks**	**Q3 2019 13 weeks**	
	As reported (IFRS 16)	**Excluding IFRS 16[1]**	**As reported (IAS 17)**	**Change**
	(A)	**(B)**	**(C)**	**(B) - (C)**
Gross profit	$ 119,595	$ 113,786	$ 104,789	$ 8,997
As a percentage of net revenue	*44.7%*	*42.6%*	*43.1%*	*(0.5%)*
SG&A	$ 64,035	$ 64,128	$ 56,554	$ 7,574
As a percentage of net revenue	*24.0%*	*24.0%*	*23.3%*	*0.7%*
Adjusted EBITDA[2]	$ 58,446	$ 58,446	$ 57,093	$ 1,353
As a percentage of net revenue	*21.9%*	*21.9%*	*23.5%*	*(1.6%)*
Adjusted Net Income	$ 35,719	$ 35,735	$ 35,933	($ 198)
As a percentage of net revenue	*13.4%*	*13.4%*	*14.8%*	*(1.4%)*
Adjusted Net Income per Diluted Share	$ 0.32	$ 0.32	$ 0.31	$ 0.01

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)	YTD 2020 39 weeks As reported (IFRS 16)	YTD 2020 39 weeks Excluding IFRS 16[1]	YTD 2019 39 weeks As reported (IAS 17)	Change
	(A)	(B)	(C)	(B) - (C)
Gross profit	$ 300,583	$ 283,287	$ 249,066	$ 34,221
As a percentage of net revenue	*42.6%*	*40.2%*	*40.5%*	*(0.3%)*
SG&A	$ 179,031	$ 179,326	$ 156,371	$ 22,955
As a percentage of net revenue	*25.4%*	*25.4%*	*25.4%*	*0.0%*
Adjusted EBITDA[2]	$ 130,197	$ 130,197	$ 118,477	$ 11,720
As a percentage of net revenue	*18.5%*	*18.5%*	*19.3%*	*(0.8%)*
Adjusted Net Income	$ 73,960	$ 74,181	$ 69,471	$ 4,710
As a percentage of net revenue	*10.5%*	*10.5%*	*11.3%*	*(0.8%)*
Adjusted Net Income per Diluted Share	$ 0.66	$ 0.66	$ 0.59	$ 0.07

Notes:

(1) Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

(2) To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q3 2020 and YTD 2020 have been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16.

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 2020 Compared to Q3 2019

Select financial highlights include the following:

- Comparable sales growth[3] was 5.1%, the 21st consecutive quarter of positive growth.
- Net revenue increased by 10.0% to $267.3 million from $242.9 million in Q3 2019, with positive performance across all geographies and all channels.
- Gross profit margin[3] was 44.7%. Excluding the impact of IFRS 16[4], gross profit margin was 42.6%, compared to 43.1% in Q3 2019.
- Adjusted EBITDA[3] increased by 2.4% to $58.4 million from $57.1 million in Q3 2019.
- Net income increased by 6.8% to $34.8 million from $32.6 million in Q3 2019.
- Adjusted Net Income[3] decreased slightly by 0.6% to $35.7 million from $35.9 million in Q3 2019.

Notes :

(3) 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.

(4) See "Significant New Accounting Standards Recently Adopted" and "Selected Consolidated Financial Information" below for more information regarding the financial impact of IFRS 16 on Q3 2020 and YTD 2020 results.

- Adjusted Net Income per diluted share[3] increased by 3.2% to $0.32 from $0.31 in Q3 2019.

YTD 2020 Compared to YTD 2019

Select financial highlights include the following:

- Comparable sales growth[3] was 6.9%, following 11.9% comparable sales growth in YTD 2019.
- Net revenue increased by 14.6% to $705.2 million from $615.2 million in YTD 2019, with positive performance across all geographies and all channels.
- Gross profit margin[3] was 42.6%. Excluding the impact of IFRS 16[4], gross profit margin was 40.2%, compared to 40.5% in YTD 2019.
- Adjusted EBITDA[3] increased by 9.9% to $130.2 million from $118.5 million in YTD 2019.
- Net income increased by 14.8% to $68.9 million from $60.0 million in YTD 2019.
- Adjusted Net Income[3] increased by 6.5% to $74.0 million from $69.5 million in YTD 2019.
- Adjusted Net Income per diluted share[3] increased by 11.9% to $0.66 from $0.59 in YTD 2019.

Strategic Accomplishments for Q3 2020

- Launched first foray into Men's, with outerwear
- Achieved meaningful eCommerce revenue growth through increases in both traffic and transactions in Canada and the United States
- Expanded boutique network with the new boutique opening of Cherry Creek in Denver, Colorado and the repositioning of boutiques in Rideau Centre in Ottawa, Ontario and Coquitlam Centre in Greater Vancouver, British Columbia
- Advanced influencer marketing and VIP programs with highly influential celebrities and personalities designed to accelerate brand awareness, particularly in the United States
- Completed the initial implementation of Customer 360 and Marketing Communications Platform, two foundational components of the Customer Program in partnership with SAP

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. We believe our expansion into categories such as leather and denim will help drive increased wallet share among our existing clients as well as attract new clients. We are progressing the development of our warm weather product strategy as well as an extended sizing initiative that we expect to launch in Fiscal 2021. 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 35-year history.

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

	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Number of boutiques, beginning of period	93	90	91	85
New boutiques	1	2	3	7
Number of boutiques, end of period	94	92	94	92
Boutiques expanded or repositioned	2	-	3	3

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. We are implementing an updated marketing communications platform, which will allow us to create and execute email campaigns targeting specific client segments based on their preferences.
- *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 have recently entered into a strategic partnership with SAP to develop a comprehensive client program ("Customer Program"), which we believe will be transformative for our business. The program is designed to build on our world class client experience by providing a seamless, consistent and personalized approach towards how we engage and service our clients. Through advanced business intelligence and behavior analytics, we will be able to tailor unique shopping experiences both in our boutiques and online, while driving sales and client loyalty. We will be launching a sophisticated digital sales tool application, which will equip our style advisors with real-time, enriched client information and product data to enhance our exceptional client service. Style advisors will be able to access our

eCommerce website and help our clients transact online, as well as in our boutiques. Additional details of this exciting initiative are further discussed below.

- *Driving our omni-channel growth and capabilities* – Our clients shop both in our boutiques and online, 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. To support omni-channel growth and capture existing synergies, we are creating a platform to provide our clients a seamless experience whether they shop in our boutiques or online. Building on the foundation of our new point-of-sale system, this platform will allow for a centralized view of inventory availability to improve cross channel activities such as buy online, pick up in store, and buy online, fulfill from store.
- *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 support our long-term growth.

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

In August 2018, we 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.

During Q2 2020, we completed the expansion of both of our third party distribution centres in Mississauga, Ontario and Columbus, Ohio. In total, we added 180,000 square feet of space, representing an 80% increase in size for these facilities. These expansions support both our growing retail and eCommerce businesses with added capacity to handle higher levels of throughput.

As we continue to further elevate our client experience, we are now developing our Customer Program, which is a multi-year initiative comprised of four projects that are expected to be implemented in phases:

- *Customer 360* – Launched in November 2019, this tool enables us to store, view and edit client information from all of our front end systems. This gives us an enhanced, real-time view of our clients including their attributes, past purchases and preferences.

- *Marketing Communications Platform* – Through advanced analytics, this platform builds on Customer 360's data repository, which is expected to allow us to personalize our communications by creating campaigns that cater to our clients' attributes and preferences. We expect that a more personalized approach to marketing communications will enhance our top-line growth. The first phase was completed in November 2019.
- *Concierge* – This new, integrated solution is expected to not only allow us to enhance our client experience throughout the lifecycle of their purchase, it is also expected to represent a revenue generating opportunity as we personalize each client interaction through our client care centre.
- *Digital Selling Tools* – This project is expected to be implemented in multiple phases in Fiscal 2021. In the form of a mobile app, the digital selling tool is designed to provide enriched client information and product data to improve the productivity of our style advisors.

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

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 strategic investments in systems, infrastructure and people are expected to keep us on the forefront of providing the exceptional client service and an aspirational shopping experience for which we are well-known.

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 ("Revolving Credit Facility").

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

Foreign Exchange

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

How We Assess the Performance of Our Business

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

Net Revenue

Net revenue reflects our sale of merchandise, less returns and discounts. Retail revenue at point-of-sale is measured at the fair value of the consideration received at the time the sale is made to the customer, net of discounts and estimated allowance for returns. For merchandise that is ordered and paid in a boutique and

subsequently picked up by or delivered to the customer, revenue is deferred until control of the merchandise has been transferred to the customer. eCommerce revenue is recognized at the date control has been transferred to the customer, and measured at the fair value of consideration received, net of discounts and an estimated allowance for returns. Revenues are reported net of sales taxes collected for various governmental agencies.

Comparable Sales Growth

Comparable sales growth is a retail industry metric used to compare the percentage change in sales derived from established boutiques of a certain period as compared to the sales from the same boutiques in the same period in the prior year. Comparable sales growth helps to explain our revenue growth in established boutiques and eCommerce. Comparable sales is calculated based on revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts), and excludes boutiques that were expanded or repositioned, boutiques in centres where we opened a new additional boutique and boutiques significantly impacted by nearby construction and other similar disruptions during this period. 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, 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. Currently our product costs have been pressured by rising materials costs, particularly wool, silk, down, cotton and polyester, as well as the effect of new tariffs from the ongoing trade dispute between the United States and China. We define gross profit margin as our gross profit divided by our net revenue.

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

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

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

EBITDA

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

Adjusted EBITDA

We believe Adjusted EBITDA is a useful measure of operating performance, as it provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities by removing the effects of interest, depreciation and amortization expenses that are not reflective of underlying business performance and other one-time or non-recurring expenses. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We define Adjusted EBITDA as consolidated net income before depreciation and amortization, finance expense and income tax expense, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized foreign exchange gains or losses on forward contracts and other items we consider non-recurring and not representative of our ongoing operating performance. Beginning Q1 2020, we adopted IFRS 16 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q3 2020 and YTD 2020 have been adjusted to exclude, in addition to other adjustments, the impact of IFRS 16 (for additional information relating to the adoption of IFRS 16, see "Significant New Accounting Standards Recently Adopted"). 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.

Selected Consolidated Financial Information

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

(in thousands of Canadian dollars, unless otherwise noted)	Q3 2020 13 weeks			Q3 2019 13 weeks
	As reported (IFRS 16)	IFRS 16 adoption impact	Excluding IFRS 16[5]	As reported (IAS 17)
Consolidated Statements of Operations:				
Net revenue	$ 267,282	$ -	$ 267,282	$ 242,876
Cost of goods sold	147,687	5,809	153,496	138,087
Gross profit	119,595	(5,809)	113,786	104,789
Operating expenses				
Selling, general and administrative	64,035	93	64,128	56,554
Stock-based compensation expense	1,063	-	1,063	2,896
Income from operations	54,497	(5,902)	48,595	45,339
Finance expense	7,021	(5,925)	1,096	1,101
Other expenses (income)	(216)	-	(216)	(1,403)
Income before income taxes	47,692	23	47,715	45,641
Income tax expense	12,889	7	12,896	13,041
Net income	$ 34,803	$ 16	$ 34,819	$ 32,600
Percentage of Net Revenue:				
Net revenue	100.0%		100.0%	100.0%
Cost of goods sold	55.3%		57.4%	56.9%
Gross profit	44.7%		42.6%	43.1%
Operating expenses				
Selling, general and administrative	24.0%		24.0%	23.3%
Stock-based compensation expense	0.4%		0.4%	1.2%
Income from operations	20.4%		18.2%	18.7%
Finance expense	2.6%		0.4%	0.5%
Other expenses (income)	(0.1%)		(0.1%)	(0.6%)
Income before income taxes	17.8%		17.9%	18.8%
Income tax expense	4.8%		4.8%	5.4%
Net income	13.0%		13.0%	13.4%
Other Performance Measures:				
Year-over-year net revenue growth	10.0%		10.0%	18.8%
Comparable sales growth	5.1%		5.1%	12.9%
Capital cash expenditures (excluding proceeds from leasehold inducements)	$ 13,486		$ 13,486	$ 13,073
Number of boutiques, end of period	94		94	92
New boutiques added	1		1	2
Boutiques expanded or repositioned	2		2	-

Note:

(5) Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

(in thousands of Canadian dollars, unless otherwise noted)	YTD 2020 39 weeks			YTD 2019 39 weeks
	As reported (IFRS 16)	IFRS 16 adoption impact	Excluding IFRS 16[6]	As reported (IAS 17)
Consolidated Statements of Operations:				
Net revenue	$ 705,159	$ -	$ 705,159	$ 615,246
Cost of goods sold	404,576	17,296	421,872	366,180
Gross profit	300,583	(17,296)	283,287	249,066
Operating expenses				
Selling, general and administrative	179,031	295	179,326	156,371
Stock-based compensation expense	5,379	-	5,379	8,944
Income from operations	116,173	(17,591)	98,582	83,751
Finance expense	21,405	(17,897)	3,508	3,602
Other income	(831)	-	(831)	(5,234)
Income before income taxes	95,599	306	95,905	85,383
Income tax expense	26,720	85	26,805	25,378
Net income	$ 68,879	$ 221	$ 69,100	$ 60,005
Percentage of Net Revenue:				
Net revenue	100.0%		100.0%	100.0%
Cost of goods sold	57.4%		59.8%	59.5%
Gross profit	42.6%		40.2%	40.5%
Operating expenses				
Selling, general and administrative	25.4%		25.4%	25.4%
Stock-based compensation expense	0.8%		0.8%	1.5%
Income from operations	16.5%		14.0%	13.6%
Finance expense	3.0%		0.5%	0.6%
Other income	(0.1%)		(0.1%)	(0.9%)
Income before income taxes	13.6%		13.6%	13.9%
Income tax expense	3.8%		3.8%	4.1%
Net income	9.8%		9.8%	9.8%
Other Performance Measures:				
Year-over-year net revenue growth	14.6%		14.6%	17.5%
Comparable sales growth	6.9%		6.9%	11.9%
Capital cash expenditures (excluding proceeds from leasehold inducements)	$ 35,623		$ 35,623	$ 47,333
Number of boutiques, end of period	94		94	92
New boutiques added	3		3	7
Boutiques expanded or repositioned	3		3	3

Note:

(6) Presented using IAS 17, as if IFRS 16 had not been adopted, for comparative purposes only.

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

	Q3 2020 13 weeks	Q3 2019 13 weeks	YTD 2020 39 weeks	YTD 2019 39 weeks
	(in thousands of Canadian dollars, unless otherwise noted)			
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:				
Net income	$ 34,803	$ 32,600	$ 68,879	$ 60,005
Depreciation and amortization	23,504	6,858	69,368	19,710
Finance expense	7,021	1,101	21,405	3,602
Income tax expense	12,889	13,041	26,720	25,378
EBITDA	78,217	53,600	186,372	108,695
Adjustments to EBITDA:				
Stock-based compensation expense	1,063	2,896	5,379	8,944
Rent impact from IFRS 16, Leases[7]	(20,834)	-	(61,554)	-
Unrealized foreign exchange loss on forward contracts	-	597	-	415
Other non-recurring items[8]	-	-	-	423
Adjusted EBITDA	$ 58,446	$ 57,093	$ 130,197	$ 118,477
Adjusted EBITDA as a Percentage of Net Revenue	21.9%	23.5%	18.5%	19.3%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	$ 34,803	$ 32,600	$ 68,879	$ 60,005
Adjustments to net income:				
Stock-based compensation expense	1,063	2,896	5,379	8,944
Unrealized foreign exchange loss on forward contracts	-	597	-	415
Other non-recurring items [8]		-	-	423
Related tax effects	(147)	(160)	(298)	(316)
Adjusted Net Income	$ 35,719	$ 35,933	$ 73,960	$ 69,471
Adjusted Net Income as a Percentage of Net Revenue	13.4%	14.8%	10.5%	11.3%
Weighted Average Number of Diluted Shares Outstanding (thousands)	111,898	117,681	111,742	117,328
Adjusted Net Income per Diluted Share	$ 0.32	$ 0.31	$ 0.66	$ 0.59

Note (7) Rent Impact from IFRS 16, Leases	**Q3 2020 13 weeks**	**YTD 2020 39 weeks**
Net income	$ 16	$ 221
Depreciation and amortization	(14,932)	(43,963)
Finance expense	(5,925)	(17,897)
Income tax expense	7	85
Rent impact from IFRS 16, Leases	$ (20,834)	$ (61,554)

Notes:

[8] Other non-recurring items in YTD 2019 relate to transaction costs relating to our secondary offering of subordinate voting shares.

	Q3 2020 13 weeks	Q3 2019 13 weeks	YTD 2020 39 weeks	YTD 2019 39 weeks
	(in thousands of Canadian dollars, unless otherwise noted)			
Reconciliation of Comparable Sales to Net Revenue:				
Comparable sales[9]	$ 236,679	$ 174,077	$ 604,473	$ 440,869
Non-comparable sales	30,603	68,799	100,686	174,377
Net revenue	$ 267,282	$ 242,876	$ 705,159	$ 615,246

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

	As at December 1, 2019	As at March 3, 2019
Selected Consolidated Financial Position Data:		
Total assets [10]	$ 1,029,214	$ 629,374
Total non-current liabilities [10]	541,610	164,454

Results of Operations

Analysis of Results for Q3 2020 to Q3 2019

The following section provides an overview of our financial performance during Q3 2020 compared to Q3 2019.

Net Revenue

Net revenue increased by 10.0% to $267.3 million compared to $242.9 million in Q3 2019. Comparable sales growth[10] of 5.1% was driven by momentum in our eCommerce business as well as positive performance across our boutique network. Net revenue growth also reflects the addition of three new boutiques and four expanded or repositioned boutiques since Q3 2019. Our annual warehouse sale occurred in Q3 2019 compared to Q2 2020 this year. This timing difference had a low single digit negative impact on net revenue growth in Q3 2020.

Gross Profit

Gross profit increased by 14.1% to $119.6 million. Excluding the impact of IFRS 16, gross profit increased by 8.6% to $113.8 million compared to $104.8 million in Q3 2019. Gross profit margin, excluding the impact of IFRS 16, decreased 50 basis points to 42.6% compared to 43.1% in Q3 2019. The decrease in gross profit margin was due primarily to higher distribution centre costs, the weakening of the Canadian dollar, ongoing higher raw materials costs and the impact from the new tariffs. These factors were partially offset by leverage from occupancy costs and improvements from our ongoing sourcing initiatives. In addition, gross profit margin in Q3 2020 benefitted from the shift in timing of our annual warehouse sale.

Notes:

(9) 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.

(10) The impact of IFRS 16 on the Q3 2020 Consolidated Financial Position figures includes an increase to total assets of $370.4 million resulting from right-of-use assets recognized as well as an increase to non-current liabilities of $439.1 million resulting from lease liabilities recognized.

SG&A Expenses

SG&A expenses increased by 13.2% to $64.0 million. Excluding the impact of IFRS 16, SG&A expenses were $64.1 million, an increase of 13.4% or 24.0% of net revenue compared to $56.6 million or 23.3% of net revenue in Q3 2019. The increase of 70 basis points is primarily due to $2.5 million in investments in our Customer Program.

Other Income

Other income was $0.2 million in Q3 2020, compared to other income of $1.4 million in Q3 2019.

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

- interest income of $0.1 million.

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

- realized foreign exchange gains on the settlement of U.S. dollar forward contracts of $0.8 million;
- realized and unrealized operational foreign exchange gains of $0.9 million;
- interest income of $0.2 million; partially offset by
- unrealized foreign exchange losses on U.S. dollar forward contracts of $0.6 million.

Adjusted EBITDA

Adjusted EBITDA increased by 2.4% to $58.4 million, or 21.9% of net revenue in Q3 2020, compared to $57.1 million, or 23.5% of net revenue in Q3 2019, primarily due to the factors discussed above. Adjusted EBITDA was negatively impacted year over year by $1.8 million from the change in other income with $0.2 million in Q3 2020, compared to $2.0 million in other income in Q3 2019. As previously noted, Adjusted EBITDA in Q3 2020 excludes the favorable impact of IFRS 16 of $20.8 million.

Stock-Based Compensation Expense

Stock-based compensation expense was $1.1 million in Q3 2020, compared to $2.9 million in Q3 2019.

Included in Q3 2020 is $0.8 million in expenses primarily related to the accounting for options under our new option plan, $0.6 million in expenses related to the accounting for our deferred and restricted share units, partially offset by $0.3 million in recoveries related to the accounting for options under our legacy option plan. Included in Q3 2019 is $2.1 million in expenses primarily related to the accounting for options under our new option plan, $0.6 million in expenses related to the accounting for options under our legacy option plan and $0.2 million in expenses related to the accounting for our deferred share units.

Finance Expense

Finance expense increased by $5.9 million to $7.0 million in Q3 2020, compared to $1.1 million in Q3 2019. The increase was attributable to $5.9 million of interest expense recognized on the lease liabilities under IFRS 16.

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 2020 and Q3 2019 were 26.8% and 26.9%, respectively.

Income tax expense was $12.9 million in Q3 2020, compared to $13.0 million in Q3 2019 and the effective tax rates for Q3 2020 and Q3 2019 were 27.0% and 28.6%, respectively. The decrease in the effective tax rate compared to Q3 2019 is due to a decrease in the amount of stock-based compensation expense.

Net Income

Net income increased by 6.8% to $34.8 million in Q3 2020, compared to $32.6 million in Q3 2019. This increase is primarily the result of a 10.0% increase in net revenue, an increase in gross profit margin and a decrease in stock-based compensation expense and income tax expense, partially offset by higher SG&A and finance expense and decrease in other income. IFRS 16 had no significant impact on net income.

Adjusted Net Income

Adjusted Net Income decreased slightly by 0.6% to $35.7 million compared to $35.9 million in Q3 2019, primarily due to the factors discussed above. Adjusted Net Income in Q3 2020 was negatively impacted year over year by $1.3 million from the after-tax change in other income with $0.2 million in Q3 2020, compared to $1.5 million in other income in Q3 2019. IFRS 16 had no significant impact on Adjusted Net Income.

Adjusted Net Income per diluted share increased by 3.2% to $0.32 from $0.31 in Q3 2019.

Analysis of Results for YTD 2020 to YTD 2019

The following section provides an overview of our financial performance during YTD 2020 compared to YTD 2019.

Net Revenue

Net revenue increased by 14.6% to $705.2 million from $615.2 million in the prior year. Comparable sales growth of 6.9% was driven by momentum in our eCommerce business as well as positive performance across our boutique network. The increase in net revenue was also driven by the revenue from new, expanded and repositioned boutiques.

Gross Profit

Gross profit increased by 20.7% to $300.6 million. Excluding the impact of IFRS 16, gross profit increased by 13.7% to $283.3 million compared to $249.1 million in YTD 2019. Gross profit margin, excluding the impact of IFRS 16, decreased 30 basis points to 40.2% compared to 40.5% in YTD 2019.

SG&A Expenses

SG&A expenses increased by 14.5% to $179.0 million. Excluding the impact of IFRS 16, SG&A expenses increased by 14.7% to $179.3 million compared to $156.4 million in YTD 2019. Excluding the impact of IFRS 16, SG&A expenses in YTD 2020 were 25.4% of net revenue, consistent with YTD 2019. SG&A expenses this year also includes $5.2 million primarily relating to investments in our Customer Program.

Other Income

Other income was $0.8 million in YTD 2020, compared to $5.2 million in YTD 2019.

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

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

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

- realized foreign exchange gains on the settlement of U.S. dollar 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 U.S. dollar forward contracts of $0.4 million.

Adjusted EBITDA

Adjusted EBITDA increased by 9.9% to $130.2 million, or 18.5% of net revenue in YTD 2020, compared to $118.5 million, or 19.3% of net revenue in YTD 2019, primarily due to the factors discussed above. Adjusted EBITDA was negatively impacted year over year by $4.8 million from the change in other income with $0.8 million in YTD 2020, compared to $5.6 million in other income in YTD 2019. As previously noted, Adjusted EBITDA for YTD 2020 excludes the favorable impact of IFRS 16 of $61.6 million.

Stock-Based Compensation Expense

Stock-based compensation expense was $5.4 million in YTD 2020, compared to $8.9 million in YTD 2019.

Included in YTD 2020 is $3.4 million in expenses primarily related to the accounting for options under our new option plan, $0.8 million in expenses related to the accounting for options under our legacy option plan and $1.2 million in expenses related to the accounting for our deferred and restricted share units. Included in YTD 2019 is $6.5 million in expenses related to the accounting for 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.

Finance Expense

Finance expense increased by $17.8 million to $21.4 million in YTD 2020, compared to $3.6 million in YTD 2019. The increase was primarily attributable to $17.9 million of interest expense recognized on the lease liabilities under IFRS 16.

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 2020 and YTD 2019 were 26.8% and 26.9%, respectively.

Income tax expense was $26.7 million in YTD 2020, compared to $25.4 million in YTD 2019 and the effective tax rates for YTD 2020 and YTD 2019 were 28.0% and 29.7%, respectively. The decrease in the effective tax rate compared to YTD 2019 is due to a decrease in the amount of stock-based compensation expense.

Net Income

Net income increased by 14.8% to $68.9 million in YTD 2020, compared to $60.0 million in YTD 2019. This increase is primarily the result of a 14.6% increase in net revenue, an increase in gross profit margin and a decrease in stock-based compensation expense, partially offset by higher SG&A, finance expense, income tax expense and decrease in other income. IFRS 16 had no significant impact on net income.

Adjusted Net Income

Adjusted Net Income increased by 6.5% to $74.0 million compared to $69.5 million in YTD 2019, primarily due to the factors discussed above. Adjusted Net Income was negatively impacted year over year by $3.5 million from the after-tax change in other income with $0.6 million in YTD 2020 compared to $4.1 million in other income in YTD 2019. IFRS 16 had no significant impact on Adjusted Net Income.

Adjusted Net Income per diluted share increased by 11.9% to $0.66 from $0.59 in YTD 2019.

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 2020			Fiscal 2019				Fiscal 2018
	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks	Q4 14 weeks	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks	Q4 13 weeks
Consolidated Statements of Operations:								
Net revenue	$ 267,282	$ 241,178	$ 196,699	$ 259,050	$ 242,876	$ 205,359	$ 167,011	$ 219,804
Gross profit	119,595	95,427	85,561	93,847	104,789	76,734	67,543	83,285
Income from operations	54,497	32,918	28,758	31,902	45,339	21,681	16,731	26,948
Net income	34,803	17,920	16,156	18,723	32,600	15,115	12,290	15,901
Percentage of Net Revenue:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	44.7%	39.6%	43.5%	36.2%	43.1%	37.4%	40.4%	37.9%
Income from operations	20.4%	13.6%	14.6%	12.3%	18.7%	10.6%	10.0%	12.3%
Net income	13.0%	7.4%	8.2%	7.2%	13.4%	7.4%	7.4%	7.2%
Adjusted EBITDA [11]	$ 58,446	$ 36,372	$ 35,379	$ 42,568	$ 57,093	$ 33,032	$ 28,352	$ 38,101
Adjusted Net Income [11]	35,719	19,757	18,484	25,072	35,933	18,295	15,243	22,489
Weighted average number of diluted shares (in thousands)	111,898	111,537	111,851	117,488	117,681	117,410	116,780	116,622
Other Performance Measures:								
Comparable Sales Growth[11]	5.1%	8.4%	7.9%	5.5%	12.9%	11.5%	10.9%	6.0%
Boutiques								
Number of boutiques, beginning of period	93	92	91	92	90	87	85	84
New boutiques added	1	1	1	-	2	3	2	1
Boutique repositioned into a flagship boutique[12]	-	-	-	(1)	-	-	-	-
Number of boutiques, end of period	94	93	92	91	92	90	87	85
Boutiques expanded or repositioned	2	-	1	1	-	1	2	2

Note:

(11) 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".

(12) Q4 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

Liquidity and Capital Resources

Overview

Our principal uses of funds are for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities (as hereinafter defined), are expected to be sufficient to meet our future operating expenses, capital expenditures and future debt service requirements. Our ability to fund operating expenses, capital expenditures and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Summary of Factors Affecting Performance" and "Risk Factors" of this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise. Historically, the funding for any such investments has come from cash flows from operating activities and/or our Credit Facilities.

Credit Facilities

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

As at December 1, 2019, the aggregate amount outstanding under our Term Loan was $75.0 million. The Term Loan matures on May 22, 2022 and has no scheduled principal repayments prior to maturity. The Term Loan requires mandatory loan prepayments by us of principal and interest if certain events occur.

A $100.0 million Revolving Credit Facility is also available as part of the Credit Facilities. No amounts were drawn on the Revolving Credit Facility as at December 1, 2019. See "Contractual Obligations – Off-Balance Sheet Arrangements and Commitments" for letters of credit issued.

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

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

Cash Flows

The following table presents cash flows for the periods indicated.

	Q3 2020 13 weeks	Q3 2019 13 weeks	YTD 2020 39 weeks	YTD 2019 39 weeks
	(in thousands of Canadian dollars)			
Net cash generated from operating activities	$ 108,921	$ 81,461	$ 174,178	$ 103,561
Net cash used in financing activities	(29,846)	(632)	(143,788)	(46,137)
Net cash used in investing activities	(13,486)	(13,073)	(35,623)	(47,333)
Effect of exchange rate changes on cash and cash equivalents	91	289	2	474
Increase (decrease) in cash and cash equivalents	$ 65,680	$ 68,045	$ (5,231)	$ 10,565

Analysis of Cash Flows for the Third Quarter and YTD

Cash Flows Generated from Operating Activities

For Q3 2020, cash flows generated from operating activities totaled $108.9 million. As a result of adopting IFRS 16 in Q1 2020, $15.7 million of lease payments, which were presented within cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Q3 2020 cash flows generated from operating activities would have been $93.2 million compared to cash flows of $81.5 million generated in Q3 2019. This change was primarily attributable to higher Adjusted EBITDA, lower use of working capital due to the timing of certain payments, partially offset by higher income tax payments and lower proceeds from lease incentives.

For YTD 2020, cash flows generated from operating activities totaled $174.2 million. As a result of adopting IFRS 16 in Q1 2020, $45.4 million of lease payments, which were presented within cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, YTD 2020 cash flows generated from operating activities would have been $128.8 million compared to cash flows of $103.6 million generated in YTD 2019. This change was primarily attributable to higher Adjusted EBITDA and lower use of working capital due to the timing of certain payments, partially offset by higher income tax payments and lower proceeds from lease incentives.

Cash Flows Used in Financing Activities

For Q3 2020, cash flows used in financing activities totaled $29.8 million. As a result of adopting IFRS 16 in Q1 2020, $15.7 million of lease payments, which were presented as cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, Q3 2020 cash flows used in financing activities would have been $14.1 million, compared to cash flows of $0.6 million used in Q3 2019. This change was primarily due to a $20.0 million repayment of our revolving credit facility, partially offset by a decrease in repurchases of subordinate voting shares for cancellation of $4.2 million.

For YTD 2020, cash flows used in financing activities totaled $143.8 million. As a result of adopting IFRS 16 in Q1 2020, $45.4 million of lease payments, which were presented as cash flows generated by operating activities prior to the adoption of IFRS 16, are presented within cash flows used in financing activities. Excluding the lease payment presentation impact of IFRS 16, YTD 2020 cash flows used in financing activities would have been $98.4 million, compared to cash flows of $46.1 million used in YTD 2019. This change was primarily due to an increase in repurchases of subordinate voting shares for cancellation of $99.1 million due to the Share Repurchase, partially offset by a $43.7 million term loan repayment as a result of our debt refinancing in YTD.

Cash Flows Used in Investing Activities

For Q3 2020, cash flows used in investing activities totaled $13.5 million, compared to $13.1 million in Q3 2019. Investing activities in Q3 2020 relate to new boutiques and boutique expansions and repositions, as well as investments in our PLM system.

For YTD 2020, cash flows used in investing activities totaled $35.6 million, compared to $47.3 million in YTD 2019. Investing activities in YTD 2020 relate to new boutiques and boutique expansions and repositions, as well as investments in our PLM system.

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at December 1, 2019.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Accounts payable and accrued liabilities	83,940	-	-	83,940
Assumed interest on Term Loan[13]	2,609	3,863	-	6,472
Term Loan[14]	-	75,000	-	75,000
Total contractual obligations	$ 86,549	$ 78,863	$ -	$ 165,412

Notes:

(13) Based on interest rate in effect as at December 1, 2019, and assuming no unscheduled principal payments are made prior to maturity.

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

Off-Balance Sheet Arrangements and Commitments

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at December 1, 2019, we had purchase obligations of $36.8 million, which represent commitments for fabric to be used during upcoming seasons, made in the normal course of business.

We enter into trade letters of credit to facilitate the international purchase of inventory. We also enter into standby letters of credit to secure certain of our obligations, including leases and duties related to import purchases. As at December 1, 2019, letters of credit totaling $29.0 million have been issued.

Other than those items disclosed here and elsewhere in this MD&A and our consolidated financial statements, we do not have any material off-balance sheet arrangements or commitments as at December 1, 2019.

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 December 1, 2019, we did not have any outstanding foreign currency forward contracts.

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

Prior to our secondary offering in August 2018, we were ultimately controlled by Canada Retail Holdings, L.P., being our ultimate parent and the Berkshire Shareholder. Effective August 7, 2018, upon completion of the secondary offering in August 2018, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of us. Upon completion of the March 2019 Secondary Offering and Share Repurchase, on March 8, 2019, the Berkshire Shareholder sold its entire investment in us. As a result, effective March 8, 2019, we are ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company.

During the 13-week and 39-week periods ended December 1, 2019, we made payments of $0.9 million and $2.9 million, respectively (13-week and 39-week periods ended November 25, 2018 - $1.0 million and $3.1 million, respectively) for a lease of premises and $243 and $573, respectively (13-week and 39-week periods ended November 25, 2018 - $203 and $660, respectively) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. At December 1, 2019, $264

was included in accounts payable and accrued liabilities (March 3, 2019 - $71) and $7 was included in prepaid expenses and other current assets (March 3, 2019 - $52).

Total 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. As at March 3, 2019, $2.5 million was included in accounts receivable relating to the March 2019 Secondary Offering and Share Repurchase and has since been received as of March 8, 2019. As of March 8, 2019, the Berkshire Shareholder has no remaining equity interest in us; as such, transactions with Berkshire subsequent to March 8, 2019 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 2020 13 weeks	Q3 2019 13 weeks	YTD 2020 39 weeks	YTD 2019 39 weeks
	(in thousands of Canadian dollars)			
Salaries, directors' fees and short-term benefits	$ 1,144	$ 875	$ 3,179	$ 2,498
Stock-based compensation expense	816	1,021	2,192	3,050
	$ 1,960	$ 1,896	$ 5,371	$ 5,548

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.

Leases

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

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

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.

Gift Card Breakage

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

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 16 - Leases

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17 and related interpretations. 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. IFRS 16 became effective for annual periods beginning on or after January 1, 2019. We adopted the standard on March 4, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period.

Substantially all of our existing leases are real estate leases for our boutiques, distribution centres and support offices and all were classified as operating leases prior to adoption of IFRS 16. We recognized right-of-use assets and lease liabilities for leases previously classified as operating leases under IAS 17. The depreciation expense on the right-of-use assets and the finance charge on the lease liabilities substantially replaced the lease-related expenses recorded in costs of goods sold and selling, general and administrative

expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee, but changes the presentation of the operating and financing cash flows presented on our consolidated statements of cash flows.

We have elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

i) recognition exemption of short term leases;

ii) recognition exemption of low-value leases;

iii) grandfather prior conclusions on contracts containing leases on transition;

iv) a single discount rate was applied to a portfolio of leases with similar characteristics on transition;

v) initial direct costs were excluded in the measurement of the right-of-use assets on transition; and

vi) hindsight was used in determining lease term at the date of transition.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at March 4, 2019. The right-of-use assets were measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. The cumulative adjustment was recognized directly to retained earnings at March 4, 2019.

Upon adoption of IFRS 16, we updated our lease accounting policies as follows:

We assess whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if we are reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determined those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred.

Outlook

The strong sales momentum from the second half of Q3 2020 continued through the holiday season and the start of the fall/winter sale. We expect comparable sales growth in Q4 2020 to be in the high single digits.

For Fiscal 2020, we currently expect the following, which excludes the impact of IFRS 16 adoption:

- Net revenue growth in the low double digits.
- Five new boutiques in the United States, comprised of the three new boutiques already opened in Fiscal 2020 (Hudson Yards in Manhattan, New York, Mall of America in Minneapolis, Minnesota and Cherry Creek in Denver, Colorado) and the two expected to open at the end of Q4 2020 (Houston Galleria in Houston, Texas and the Domain in Austin, Texas).
- Two pop-up locations already opened in Fiscal 2020 (Greenwich, Connecticut and Orchard Park, Kelowna, B.C.).
- Three boutique expansions or repositions in Canada, already opened in Fiscal 2020 (repositioning of the Mapleview boutique in Greater Toronto, the expansion of the Rideau boutique in Ottawa, Ontario and the repositioning of the Coquitlam Centre boutique, in Greater Vancouver).
- Gross profit margin to be flat to slightly lower than Fiscal 2019 due to ongoing higher raw material costs and the effect of new tariffs from the ongoing trade dispute between the United States and China.
- SG&A to grow faster than revenue, as we continue to make strategic investments in technology and infrastructure to support our long term growth. A majority of the investments related to our eCommerce platform improvements, omni-channel capabilities, digital selling tools and data analytics platforms are cloud-based and will be expensed in SG&A. Incremental SG&A expenses in Fiscal 2020 related to these initiatives are expected to total approximately $8 million, with $2 million to $3 million expected to occur in Q4 2020.
- Net capital expenditures in the range of $40 million to $45 million.

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 the Company's AIF, which is available on SEDAR at *www.sedar.com*.

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

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 2020 that materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Current Share Information

As of January 8, 2020, an aggregate of 84,494,535 subordinate voting shares, 24,537,349 multiple voting shares and no preferred shares are issued and outstanding. All of the issued and outstanding multiple voting shares are, directly or indirectly, held or controlled by the principal shareholders. As of January 8, 2020, an aggregate of 8,069,550 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".