



Aritzia Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended February 26, 2017

May 10, 2017

The following Management's Discussion and Analysis ("MD&A") dated May 10, 2017 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 fourth quarter and the fiscal year ended February 26, 2017. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and notes for Fiscal 2017 (as hereinafter defined).

Basis of Presentation

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

All references in this MD&A to "Q4 2017" are to our 13-week period ended February 26, 2017, and to "Q4 2016" are to our 13-week period ended February 28, 2016. All references in this MD&A to "Fiscal 2017" are to our 52-week period ended February 26, 2017, to "Fiscal 2016" are to our 52-week period ended February 28, 2016 and to "Fiscal 2015" are to our 52-week period ended March 1, 2015.

The audited annual consolidated financial statements and accompanying notes for the 52-week period ended February 26, 2017 and this MD&A were reviewed by our Audit Committee and approved by our Board of Directors on May 10, 2017.

Non-IFRS Measures Including Retail Industry Metrics

This MD&A makes reference to certain non-IFRS measures including certain retail industry metrics. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per diluted share" and "gross profit margin". This MD&A also makes reference to "comparable sales growth" and "sales per square foot", which are commonly used operating metrics in the retail industry but may be calculated differently compared to other retailers. 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 "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, including, but not limited to, expectations regarding industry trends, overall market growth rates, and our growth rates and growth strategies, expectations regarding our capital expenditures, operations and use of future cash flow, our business plans and strategies, expectations regarding brand expansions, expectations regarding new store openings and the expansion and repositioning of existing stores, intentions with respect to the implementation of new accounting standards and other statements that are not historical facts, are forward-looking.

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 based on current 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, there can be no assurance that such estimates and assumptions will prove to be correct.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Risk Factors" section of this MD&A and in the Company's annual information form dated May 10, 2017 for the fiscal year ended February 26, 2017 (the "AIF"). A copy of the AIF can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

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 an innovative design house and fashion retailer of exclusive brands. We design apparel and accessories for our collection of exclusive brands and sell them under the Aritzia banner. We conceive, create, develop and sell a strategic mix of women's fashion products directly to our customers 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 customers across multiple life stages, resulting in strong and enduring customer loyalty.

We connect our customers 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 61 stores in Canada and 20 stores in the United States, averaging approximately 5,000 square feet, all of which are in prime locations within high performing retail malls and high streets. We sell our products exclusively through our stores and *aritzia.com*, giving us complete control of the presentation of our brand and the relationships with our customers. This strategy allows us to present our brand in a consistent manner, including pricing, marketing and product presentation. We strive to offer our customers an aspirational shopping experience and exceptional level of service at every interaction. Our culture is highly focused on the customer, and our sales associates and eCommerce support teams are trained to provide shopping experiences that are personalized to exceed our customers' wants and needs.

Initial Public Offering

On October 3, 2016, we successfully closed our initial public offering (the "IPO") of our subordinate voting shares (the "Shares") at a price of \$16.00 per Share through a secondary sale of shares by our principal shareholders. Our principal shareholders sold 25,000,000 Shares under the IPO for total gross proceeds of \$400.0 million. The Shares are listed for trading on the Toronto Stock Exchange under the symbol "ATZ".

The underwriters were granted an over-allotment option (the "Over-Allotment Option") to purchase up to an additional 3,750,000 Shares from our principal shareholders at a price of \$16.00 per Share. The Over-Allotment Option was fully exercised after the IPO and raised additional gross proceeds of \$60.0 million for the selling shareholders. Underwriting fees were paid by the selling shareholders and other expenses related to the IPO of approximately \$7.7 million were incurred and are being paid by us.

In connection with and immediately prior to the IPO, each Class A and Class C common share was exchanged for either one multiple voting share or one Share. Our Class B and Class D common shares and preferred shares were removed from our authorized share capital. Our authorized share capital consists of (i) an unlimited number of Shares, (ii) an unlimited number of multiple voting shares and (iii) an unlimited number of preferred shares, issuable in series.

Following the foregoing share exchanges, all of our issued and outstanding multiple voting shares and Shares were consolidated on an approximately one-to-0.5932 basis. In connection with the IPO, options to acquire Class A and Class D common shares were also consolidated on an approximately one-to-0.5932 basis for options exercisable to acquire Shares at a post-consolidated exercise price such that the in-the-money value of such options remained unchanged.

Concurrent with the IPO, amendments to our credit facilities with our syndicate of lenders became effective. See the section entitled "Liquidity and Capital Resources - Credit Facilities".

Secondary Offering

On January 26, 2017, we successfully closed a secondary offering (the "Secondary Offering") of our Shares by certain of our shareholders at a price of \$17.45 per Share, as well as a concurrent block trade by a group of our employees ("Concurrent Block Trade"). Our shareholders sold 20,100,000 Shares under the Secondary Offering and our employees sold 1,788,366 Shares under the Concurrent Block Trade for total gross proceeds of \$382.0 million. Underwriting fees were paid by the selling shareholders and other expenses related to the Secondary Offering of approximately \$0.9 million were incurred and are being paid by us.

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.

Q4 2017 Compared to Q4 2016

Select financial highlights include the following:

- Net revenue increased by 17.4% to \$196.4 million from \$167.4 million in Q4 2016
- Comparable sales growth was 11.5%, following 9.2% comparable sales growth in Q4 2016
- Gross profit margin increased to 38.4% from 34.0% in Q4 2016
- SG&A expenses increased by 26.9% to \$49.5 million from \$39.0 million in Q4 2016. Excluding the impact of Secondary Offering costs incurred this quarter of approximately \$0.9 million, SG&A expenses were 24.7% of net revenue, compared to 23.3% of net revenue in Q4 2016
- Adjusted EBITDA increased by 38.8% to \$32.3 million from \$23.3 million in Q4 2016. Adjusted EBITDA was 16.4% of net revenue, compared to 13.9% of net revenue in Q4 2016
- Stock-based compensation of \$4.4 million was expensed in Q4 2017 primarily due to the accounting of options under our legacy option plan of \$2.3 million and the accounting of options under our new option plan of \$2.1 million
- Net income increased by 15.1% to \$11.5 million, compared to net income of \$10.0 million in Q4 2016
- Adjusted Net Income increased by 55.5% to \$18.3 million, or \$0.16 per diluted share (treasury stock method⁽¹⁾), compared to \$11.8 million, or \$0.10 per diluted share (treasury stock method⁽²⁾) in Q4 2016. Adjusted Net Income was 9.3% of net revenue, compared to 7.0 % of net revenue in Q4 2016

Fiscal 2017 Compared to Fiscal 2016

Select financial highlights include the following:

- Net revenue increased by 23.0% to \$667.2 million from \$542.5 million in Fiscal 2016
- Comparable sales growth was 14.0%, following 16.7% comparable sales growth in Fiscal 2016
- Gross profit margin increased to 39.8% from 36.6% in Fiscal 2016
- SG&A expenses increased by 32.3% to \$178.8 million from \$135.1 million in Fiscal 2016. Excluding the impact of IPO costs and Secondary Offering costs of approximately \$8.6 million, SG&A expenses were 25.5% of net revenue, compared to 24.9% of net revenue in Fiscal 2016
- Adjusted EBITDA increased by 38.5% to \$117.7 million from \$85.0 million in Fiscal 2016. Adjusted EBITDA was 17.6% of net revenue, compared to 15.7% of net revenue in Fiscal 2016
- Stock-based compensation expense of \$103.0 million was primarily due to the fair value accounting of our legacy time-based options and the triggering of our legacy performance-based options in connection with the IPO. Prior to the IPO, we accounted for the time-based options under the legacy option plan as a stock-based compensation liability due to the cash settlement feature. As of September

Notes:

⁽¹⁾ Adjusted Net Income per diluted share for Q4 2017 and Fiscal 2017 is a non-IFRS measure and is calculated by dividing Adjusted Net Income by the total number of outstanding shares plus the total number of dilutive share options that would be included under the treasury stock method as at February 26, 2017 (or 117,408,845 diluted shares). For reconciliation of diluted shares to a reported measure, please see "Selected Consolidated Financial Information".

⁽²⁾ The Company effected changes to its share capital in connection with the IPO completed in Q3 2017. For comparative purposes, Adjusted Net Income per diluted share for Q4 2016 and Fiscal 2016 is based on the same diluted share count as Adjusted Net Income per diluted share for Q4 2017 and Fiscal 2017, respectively.

30, 2016, we amended the legacy option plan to remove this cash settlement feature and, accordingly, accounted for the time-based options as an equity-settled plan from this date forward

- Net loss was \$56.1 million compared to net income of \$32.4 million in Fiscal 2016. This net loss was primarily driven by the non-cash stock-based compensation expense of \$103.0 million as discussed above
- Adjusted Net Income increased by 60.4% to \$64.6 million, or \$0.55 per diluted share (treasury stock method⁽¹⁾), from \$40.3 million, or \$0.34 per diluted share (treasury stock method⁽²⁾) in Fiscal 2016. Adjusted Net Income was 9.7% of net revenue, compared to 7.4% of net revenue in Fiscal 2016

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, innovative design house and fashion retailer that creates and develops fashion apparel. We have become a well known and deeply loved brand by our customers in Canada with growing customer 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. Any loss of brand appeal may adversely affect our business and financial results.

Product Innovation and Merchandise Planning Strategy

We believe that our differentiated multi-brand strategy is a key driver of our year-over-year net revenue growth, comparable sales growth and average sales per square foot of greater than \$1,400 per square foot. 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. 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.

Store Network Expansion and Enhancement

We have a meaningful opportunity to continue to grow our store network across North America, particularly in the United States. In addition to opening new Aritzia and exclusive brand stores (e.g. Wilfred, Babaton and TNA), we have generated attractive returns on capital by enhancing elements of our existing stores (including footprint, layout and assortment) through carefully considered store expansions and repositions.

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

	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Number of stores, beginning of period	77	72	74	64
New stores	2	2	5	10
Number of stores, end of period	79	74	79	74
Stores expanded or repositioned	-	-	5	2

In addition to the changes in our store count since the fourth quarter of last year (described in the table above), during the first quarter of 2018, we opened two new stores and repositioned one store.

eCommerce Growth

Our eCommerce business was launched in fiscal 2013 and quickly surpassed our growth expectations with continued outstanding performance in Fiscal 2017.

We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our customers. We believe there is a synergistic relationship between our store network and *aritzia.com*, with the success of each channel benefiting the other through increased brand awareness and affinity. Within our eCommerce business, we believe there is a significant opportunity to broaden the assortment of both exclusive brands and third party products to complement our existing offering and drive new sales.

We introduced shipping to international markets in October 2016, which is helping set the foundation for future expansion by allowing us to gather intelligence, refine our learnings and identify international markets that could support our stores. This will further enhance our eCommerce reach, allowing us to capitalize on growing demand for our products outside North America.

Sourcing and Production

We contract and maintain direct relationships with a diversified base of independent third party mills, trim 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 mills, trim 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 ahead of our growth plans. During Q4 2017, we implemented a set of enhancements to our new human resource information system, which included the implementation of employee self-service, and time and absence management. In the coming year, we expect to launch additional capabilities of this system to better enable strategic human capital decisions, as well as a new point-of-sale (POS) system to further enhance our omni-channel operations and customer relationship capabilities. In April 2017, we expanded our Columbus area distribution centre capacity from 45,000 square feet to 138,000 square feet. We have also begun the process of relocating and expanding our Greater Vancouver distribution centre, from our existing 83,000 square foot facility into a new 223,000 square foot facility. We expect the new Greater Vancouver distribution centre to be operational by Spring of next year. These investments in systems and infrastructure are expected to drive increased efficiencies and set the stage for the next phase of growth.

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 customer 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 (defined herein).

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

First fiscal quarter	18%
Second fiscal quarter	23%
Third fiscal quarter	28%
Fourth fiscal quarter	<u>31%</u>
Yearly total	<u>100%</u>

Weather

Extreme weather conditions in the areas in which our stores 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 customers to travel to our stores and thereby reduce our revenue and profitability. This is potentially mitigated by our customers' ability to buy our products through *aritzia.com*. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions, which could adversely affect sales of these seasonal items.

Competition

We operate in the women's apparel industry, primarily within the North American market. We are strategically positioned in a customer market segment of the global fashion landscape between fast fashion and affordable luxury. We compete on the basis of several factors that include our strategic mix of exclusive brands, offering high quality products at an attainable price point, our proven and sophisticated merchandise planning strategy, our focus on providing exceptional customer 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, store 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, which has caused an increase in our cost of goods sold since Fiscal 2014 due to the weakening of the Canadian dollar against the U.S. dollar over this period. Future fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar could materially affect our gross profit margins and operating results. 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 primarily reflects our sale of merchandise, less returns and discounts. Retail revenue is recognized at the point of sale, net of an estimated allowance for returns, while eCommerce revenue is recognized at the estimated date of receipt of the merchandise by the customer, net of an estimated allowance for returns.

Comparable Sales Growth

Comparable sales growth is a retail industry metric used to compare the percentage change in sales derived from the established stores of a certain period as compared to the sales from the same stores in the same period in the prior year. Comparable sales growth helps to explain our revenue growth in established stores and eCommerce, which may not otherwise be apparent when relying solely on net revenues. Comparable sales is calculated based on revenue (net of sales tax, returns and discounts) from stores that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts), and excludes stores that were expanded or repositioned and stores in centres where we opened a new additional store during this period. Comparable sales growth also excludes the impact of foreign currency fluctuations as it is calculated using a U.S. dollar to Canadian dollar exchange rate of 1:1 in all reporting periods. Our comparable sales growth may be calculated differently compared to other retailers.

Gross Profit

Gross profit reflects our net revenue less cost of goods sold. Cost of goods sold includes inventory and product-related costs and occupancy costs, as well as depreciation expense for our stores and distribution centres. Our cost of goods sold may include different costs compared to other retailers. Gross profit as a percentage of net revenue (gross profit margin) is impacted by the components of cost of goods sold, product mix and markdowns. We define gross profit margin as our gross profit divided by our net revenues.

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

Our SG&A expenses consist of selling expenses that are generally variable with net revenue and general and administrative operating expenses that are primarily fixed. Our SG&A expenses also include depreciation and amortization expenses for all support office assets and intangible assets. We expect our SG&A expenses to increase as we continue to open new stores, grow our eCommerce business, increase brand awareness and invest in our infrastructure. Our SG&A expenses have increased as a result of public company costs, as well as costs related to the IPO and Secondary Offering.

SG&A expenses as a percentage of net revenue is 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 (loss) 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 (loss) before depreciation and amortization, finance expense and income tax expense, adjusted for the impact of certain items, including non-cash items such as stock-based compensation expense, unrealized foreign exchange gains or losses on forward contracts and other items we consider non-recurring and not representative of our ongoing operating

performance. Because Adjusted EBITDA excludes 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 (loss), 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 total number of outstanding shares plus the total number of dilutive share options that would be included under the treasury stock method as at the end of the relevant period.

Sales per Square Foot

We calculate sales per square foot by dividing the revenue (net of sales tax, returns and discounts) from stores that have been opened for at least 13 fiscal periods (i.e. approximately 13 months) by the total leasable square footage used for day-to-day retail operations for these stores. Our sales per square foot may be calculated differently compared to other retailers.

Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods and fiscal years indicated. The selected consolidated financial information set out below for Fiscal 2017, Fiscal 2016 and Fiscal 2015 has been derived from our audited annual consolidated financial statements and related notes. The selected consolidated financial information set out below for Q4 2017 and Q4 2016 is unaudited.

	Q4 2017 13 weeks		Q4 2016 13 weeks		Fiscal 2017 52 weeks		Fiscal 2016 52 weeks		Fiscal 2015 52 weeks	
	(in thousands of Canadian dollars, unless otherwise noted)									
Consolidated Statements of Operations:										
Net revenue	\$ 196,396	100.0%	\$ 167,358	100.0%	\$ 667,181	100.0%	\$ 542,463	100.0%	\$ 427,426	100.0%
Cost of goods sold	121,028	61.6%	110,426	66.0%	401,658	60.2%	344,095	63.4%	268,081	62.7%
Gross profit	75,368	38.4%	56,932	34.0%	265,523	39.8%	198,368	36.6%	159,345	37.3%
Operating expenses										
Selling, general and administrative	49,471	25.2%	38,992	23.3%	178,773	26.8%	135,111	24.9%	113,539	26.6%
Stock-based compensation expense	4,413	2.2%	2,025	1.2%	103,044	15.4%	10,651	2.0%	11,890	2.8%
Income (loss) from operations	21,484	10.9%	15,915	9.5%	(16,294)	(2.4%)	52,606	9.7%	33,916	7.9%
Finance expense	1,339	0.7%	2,306	1.4%	10,455	1.6%	10,995	2.0%	12,982	3.0%
Other expense (income), net	1,589	0.8%	(302)	(0.2%)	(1,362)	(0.2%)	(3,512)	(0.6%)	(1,754)	(0.4%)
Income (loss) before income taxes	18,556	9.4%	13,911	8.3%	(25,387)	(3.8%)	45,123	8.3%	22,688	5.3%
Income tax expense	7,028	3.6%	3,898	2.3%	30,722	4.6%	12,751	2.4%	6,238	1.5%
Net income (loss)	\$ 11,528	5.9%	\$ 10,013	6.0%	\$ (56,109)	(8.4%)	\$ 32,372	6.0%	\$ 16,450	3.8%
Other Performance Measures:										
Year-over-year net revenue growth	17.4%		20.6%		23.0%		26.9%		13.4%	
Comparable sales growth	11.5%		9.2%		14.0%		16.7%		7.6%	
Capital expenditures	\$ 11,610		\$ 6,685		\$ 31,136		\$ 28,183		\$ 12,732	
Number of stores, end of period	79		74		79		74		64	

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

	Q4 2017 13 weeks	Q4 2016 13 weeks	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks
(in thousands of Canadian dollars unless otherwise noted)					
Reconciliation of Net Income (Loss) to Adjusted EBITDA:					
Net income (loss)	\$ 11,528	\$ 10,013	\$ (56,109)	\$ 32,372	\$ 16,450
Depreciation and amortization	5,362	4,834	21,129	18,200	17,281
Finance expense	1,339	2,306	10,455	10,995	12,982
Income tax expense	7,028	3,898	30,722	12,751	6,238
EBITDA	25,257	21,051	6,197	74,318	52,951
Adjustments to EBITDA:					
Stock-based compensation expense	4,413	2,025	103,044	10,651	11,890
Unrealized foreign exchange loss (gain) on forward contracts	1,730	177	(181)	-	-
IPO and Secondary Offering costs	881	-	8,604	-	-
Adjusted EBITDA	\$ 32,281	\$ 23,253	\$ 117,664	\$ 84,969	\$ 64,841
Adjusted EBITDA as a Percentage of Net Revenue	16.4%	13.9%	17.6%	15.7%	15.2%
Reconciliation of Net Income (Loss) to Adjusted Net Income:					
Net income (loss)	\$ 11,528	\$ 10,013	\$ (56,109)	\$ 32,372	\$ 16,450
Adjustments to net income (loss):					
Stock-based compensation expense	4,413	2,025	103,044	10,651	11,890
Unrealized foreign exchange loss (gain) on forward contracts	1,730	177	(181)	-	-
IPO and Secondary Offering costs	881	-	8,604	-	-
Refinancing costs related to debt modification at the IPO	-	-	2,867	-	-
Related tax effects	(268)	(458)	6,402	(2,741)	(3,049)
Adjusted Net Income	\$ 18,284	\$ 11,757	\$ 64,627	\$ 40,282	\$ 25,291
Adjusted Net Income as a Percentage of Net Revenue	9.3%	7.0%	9.7%	7.4%	5.9%
Adjusted Net Income per Diluted Share ⁽¹⁾⁽²⁾	\$ 0.16	\$ 0.10	\$ 0.55	\$ 0.34	\$ 0.22

Notes:

⁽¹⁾ Adjusted Net Income per diluted share for Q4 2017 and Fiscal 2017 are non-IFRS measures and are calculated by dividing Adjusted Net Income by the total number of outstanding shares plus the total number of dilutive share options that would be included under the treasury stock method as at February 26, 2017 (or 117,408,845 diluted shares). For reconciliation of diluted shares to a reported measure, please see below.

⁽²⁾ The Company effected changes to its share capital in connection with the IPO completed in Q3 2017. For comparative purposes, Adjusted Net Income per diluted share for Q4 2016, Fiscal 2016 and Fiscal 2015 are based on the same diluted share count as Adjusted Net Income per diluted share for Q4 2017 and Fiscal 2017.

	Q4 2017 13 weeks	Q4 2016 13 weeks	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks
(in thousands of Canadian dollars)					
Reconciliation of Comparable Sales to Net Revenue:					
Comparable sales ⁽³⁾	\$ 130,958	\$ 113,525	\$ 446,874	\$ 407,244	\$ 366,982
Non-comparable sales	65,438	53,833	220,307	135,219	60,444
Net revenue	<u>\$ 196,396</u>	<u>\$ 167,358</u>	<u>\$ 667,181</u>	<u>\$ 542,463</u>	<u>\$ 427,426</u>

Note:

⁽³⁾ The comparable sales for a given period represents revenue (net of sales tax, returns and discounts) from stores 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 year as compared to net revenue reported in our financial statements. See relevant definition in "How We Assess the Performance of Our Business" of this MD&A.

	Q4 2017 13 weeks	Fiscal 2017 52 weeks
Reconciliation of Diluted Shares (for purposes of Adjusted Net Income per diluted share) to Shares Outstanding:		
Weighted average number of basic shares outstanding	107,612,377	104,787,171
Adjustment to account for difference in weighted average number of shares outstanding and actual number of shares outstanding	1,160,084	3,985,290
Total number of shares outstanding	108,772,461	108,772,461
Dilutive share options under the treasury stock method	8,636,384	8,636,384
Total number of diluted shares for purposes of Adjusted Net Income per diluted share	<u>117,408,845</u>	<u>117,408,845</u>

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

	As at February 26, 2017	As at February 28, 2016	As at March 1, 2015
Selected Consolidated Financial Position Data:			
Total assets	\$ 486,845	\$ 401,118	\$ 373,412
Total non-current liabilities	183,728	221,285	206,648

Results of Operations

Analysis of Results for Q4 2017 to Q4 2016

The following section provides an overview of our financial performance during Q4 2017 compared to Q4 2016.

Net Revenue

Net revenue increased by 17.4% to \$196.4 million in Q4 2017, compared to \$167.4 million in Q4 2016. The increase was primarily driven by comparable sales growth of 11.5%, with strong in-store performance and continued momentum in our eCommerce business, as well as the revenue from five new store openings and five expanded or repositioned stores since the fourth quarter of last year.

Gross Profit

Gross profit increased by 32.4% to \$75.4 million in Q4 2017, compared to \$56.9 million in Q4 2016. The increase was primarily driven by an increase in net revenue and improvement in gross profit margin.

Gross profit margin was 38.4% in Q4 2017, compared to 34.0% in Q4 2016. The increase in gross profit margin was primarily attributable to lower product-related costs in addition to leverage on the fixed portion of store occupancy costs and fewer markdowns compared to Q4 2016.

SG&A Expenses

SG&A expenses increased by 26.9% to \$49.5 million in Q4 2017, compared to \$39.0 million in Q4 2016. SG&A expenses in Q4 2017 included costs incurred in conjunction with the Secondary Offering.

SG&A expenses were 24.7% of net revenue in Q4 2017, excluding the impact of Secondary Offering costs of approximately \$0.9 million, compared to 23.3% of net revenue in Q4 2016. This increase was primarily due to investment in support office talent and higher store labour costs as we continue to focus on elevating our retail experience.

Adjusted EBITDA

Adjusted EBITDA increased by 38.8% to \$32.3 million, or 16.4% of net revenue in Q4 2017, compared to \$23.3 million, or 13.9% of net revenue in Q4 2016, primarily due to the factors discussed above.

Stock-Based Compensation Expense

Stock-based compensation of \$4.4 million was expensed in Q4 2017, compared to \$2.0 million in Q4 2016. Included in Q4 2017 is \$2.3 million of expense that relates to the accounting of our options under the legacy option plan. The remaining \$2.1 million of expense primarily relates to the accounting of options under our new option plan.

Finance Expense

Finance expense decreased by \$1.0 million to \$1.3 million in Q4 2017, compared to \$2.3 million in Q4 2016. The decrease was primarily driven by lower average debt outstanding and lower average interest rates.

Income Tax Expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. The statutory income tax rates for Q4 2017 and Q4 2016 were 26.3% and 26.2%, respectively. Income taxes increased by \$3.1 million to \$7.0 million in Q4 2017, compared to \$3.9 million in Q4 2016. The effective tax rates for Q4 2017 and Q4 2016 were 37.9% and 28.0%, respectively. The increase in the income tax expense and effective income tax rate when compared to Q4 2016 is primarily due the increase in income from operations excluding stock-based compensation expense which is not deductible for tax purposes. In Q4 2016, stock-based compensation expense for legacy time-based options was treated as a deductible expense due to the cash settlement feature.

Net Income (Loss)

Net income was \$11.5 million in Q4 2017, compared to net income of \$10.0 million in Q4 2016, primarily due to the factors discussed above.

Adjusted Net Income

Adjusted Net Income increased by 55.5% to \$18.3 million, or \$0.16 per diluted share in Q4 2017, compared to \$11.8 million, or \$0.10 per diluted share in Q4 2016, primarily due to the factors discussed above.

Analysis of Results for Fiscal 2017 to Fiscal 2016

The following section provides an overview of our financial performance during Fiscal 2017 compared to Fiscal 2016.

Net Revenue

Net revenue increased by 23.0% to \$667.2 million in Fiscal 2017, compared to \$542.5 million in Fiscal 2016. The increase was primarily driven by comparable sales growth of 14.0%, arising from both the strong performance in stores and continued momentum in our eCommerce business, as well as revenue from non-comparable stores.

Gross Profit

Gross profit increased by 33.9% to \$265.5 million in Fiscal 2017, compared to \$198.4 million in Fiscal 2016. The increase was primarily driven by an increase in net revenue and improvement in gross profit margin.

Gross profit margin was 39.8% in Fiscal 2017, compared to 36.6% in Fiscal 2016. The increase in gross profit margin was primarily attributable to lower product-related costs in addition to leverage on the fixed portion of store occupancy costs.

SG&A Expenses

SG&A expenses increased by 32.3% to \$178.8 million in Fiscal 2017, compared to \$135.1 million in Fiscal 2016.

SG&A expenses were 25.5% of net revenue in Fiscal 2017, excluding the impact of IPO costs and Secondary Offering costs of approximately \$8.6 million, compared to 24.9% of net revenue in Fiscal 2016. This increase was primarily due to investment in support office talent and higher store labour costs as we continue to focus on elevating our retail experience.

Adjusted EBITDA

Adjusted EBITDA increased by 38.5% to \$117.7 million, or 17.6% of net revenue in Fiscal 2017, compared to \$85.0 million, or 15.7% of net revenue in Fiscal 2016, primarily due to the factors discussed above.

Stock-Based Compensation Expense

Stock-based compensation of \$103.0 million was expensed in Fiscal 2017, compared to \$10.7 million in Fiscal 2016, due primarily to the accounting of time-based and performance-based options under the legacy option plan in conjunction with the IPO. In Fiscal 2017, stock-based compensation of approximately \$76.1 million was expensed primarily relating to the accounting for fair value adjustments on our time-based legacy option plan, driven by the increase in valuation of our Shares in connection with the IPO. In August 2016, we also concluded that it is probable that the performance conditions relating to our performance-based options will be achieved in connection with the IPO. As a result, we recognized stock-based compensation expense for our performance-based options in the amount of \$23.6 million in Fiscal 2017.

Finance Expense

Finance expense decreased by \$0.5 million to \$10.5 million in Fiscal 2017, compared to \$11.0 million in Fiscal 2016. Finance expense in Fiscal 2017 included the write-off of deferred financing costs of \$2.9 million relating to the amendment of our credit facilities concurrent with the closing of the IPO. Excluding the impact of the write-off of deferred financing costs, finance expense was \$7.6 million in Fiscal 2017. The decrease was primarily driven by lower average debt outstanding and lower average interest rates.

Income Tax Expense

Income taxes increased by \$17.9 million to \$30.7 million in Fiscal 2017, compared to \$12.8 million in Fiscal 2016, primarily due to the reversal of a deferred income tax asset previously recognized on stock-based

compensation liability for our legacy time-based options to income tax expense in Fiscal 2017. The remaining increase in income taxes is due to the increase in income from operations excluding stock-based compensation expense which is not deductible for tax purposes. The statutory income tax rates for Fiscal 2017 and Fiscal 2016 were 26.3% and 26.2% respectively. The effective tax rates for Fiscal 2017 and Fiscal 2016 were (121.0%) and 28.3%, respectively. The decrease in the Fiscal 2017 effective income tax rate is primarily due to stock-based compensation expense for time-based and performance-based options not being deductible for tax, resulting in an increased income tax expense over a loss before income taxes.

Net Income (Loss)

Net loss was \$56.1 million in Fiscal 2017 compared to net income of \$32.4 million in Fiscal 2016, primarily due to the factors discussed above.

Adjusted Net Income

Adjusted Net Income increased by 60.4% to \$64.6 million, or \$0.55 per diluted share in Fiscal 2017, compared to \$40.3 million, or \$0.34 per diluted share in Fiscal 2016, primarily due to the factors discussed above.

Summary of Consolidated Quarterly Results and Certain Performance Measures

The following table summarizes the results of our operations for the last eight most recently completed quarters. This unaudited quarterly information, other than 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 2017				Fiscal 2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands of Canadian dollars)								
Consolidated Statements of Operations:								
Net revenue	\$ 196,396	\$ 186,460	\$ 157,918	\$ 126,407	\$ 167,358	\$ 155,380	\$ 121,360	\$ 98,365
Gross profit	75,368	82,273	56,671	51,211	56,932	63,478	41,582	36,376
Income (loss) from operations	21,484	29,844	(80,686)	13,064	15,915	23,983	6,917	5,791
Net income (loss)	\$ 11,528	\$ (8,097)	\$ (67,288)	\$ 7,748	\$ 10,013	\$ 15,553	\$ 4,744	\$ 2,062
Percentage of Net Revenue:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	38.4%	44.1%	35.9%	40.5%	34.0%	40.9%	34.3%	37.0%
Income (loss) from operations	10.9%	16.0%	(51.1%)	10.3%	9.5%	15.4%	5.7%	5.9%
Net income (loss)	5.9%	(4.3%)	(42.6%)	6.1%	6.0%	10.0%	3.9%	2.1%
Adjusted EBITDA ⁽¹⁾	32,281	45,427	19,809	20,147	23,253	33,558	16,453	11,705
Adjusted Net Income ⁽¹⁾	18,284	27,457	9,281	9,605	11,757	18,976	6,515	3,034
Other Performance Measures:								
Comparable sales growth	11.5%	15.2%	16.9%	12.9%	9.2%	15.4%	20.8%	25.8%
Stores								
Number of stores, beginning of period	77	75	74	74	72	67	65	64
New stores	2	2	1	-	2	5	2	1
Number of stores, end of period	79	77	75	74	74	72	67	65
Stores expanded or repositioned	-	2	1	2	-	1	-	1

Note:

⁽¹⁾ See "How We Assess the Performance of Our Business" for definitions of Adjusted EBITDA and Adjusted Net Income, which are non-IFRS measures. See also "Non-IFRS Measures".

Liquidity and Capital Resources

Overview

Our principal uses of funds are for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our credit facilities (defined herein), 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

As at February 26, 2017, the aggregate amount outstanding under our term credit facility was \$134.1 million, maturing on May 13, 2019 ("Term Credit Facility"). A \$70.0 million revolving credit facility is also available as part of this facility ("Revolving Credit Facility" and together with the Term Credit Facility, the "Credit Facilities"). No amounts were drawn on the Revolving Credit Facility as at February 26, 2017. Scheduled mandatory repayments of the Term Credit Facility will be \$15.3 million and \$19.2 million in February 2018 and February 2019, respectively, with the balance due on the maturity date of May 13, 2019. In addition, the Term Credit Facility requires mandatory loan prepayments by us of principal and interest if certain events occur. See "Contractual Obligations - Off-Balance Sheet Arrangements and Commitments" for letters of credit issued.

Concurrent with the IPO, amendments to our Credit Facilities with our syndicate of lenders became effective. Each of the Credit Facilities has various interest rate charge options that are based on Canadian prime rates, base rates and LIBOR rates plus the applicable margin from time to time in effect. The amendment included allowing us to enter into bi-lateral letters of credit agreements of up to \$75.0 million with different lenders, lowering the applicable margin on interest rates and amending other terms and conditions.

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 clothing 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.

On March 29, 2017, we entered into a \$50.0 million trade finance agreement for letters of credit, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.17% and 2.00%.

Cash Flows

The following table presents cash flows for the periods and fiscal years indicated.

	Q4 2017 13 weeks	Q4 2016 13 weeks	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks
	(in thousands of Canadian dollars)			
Net cash generated from operating activities	\$ 30,176	\$ 9,156	\$ 112,102	\$ 57,621
Net cash generated from (used in) financing activities	1,785	(11,321)	(5,060)	(33,096)
Net cash used in investing activities	(11,610)	(6,685)	(31,136)	(28,183)
Effect of exchange rate changes on cash and cash equivalents	(223)	(102)	35	21
Increase (decrease) in cash and cash equivalents	<u>\$ 20,128</u>	<u>\$ (8,952)</u>	<u>\$ 75,941</u>	<u>\$ (3,637)</u>

Analysis of Cash Flows for the Fourth Quarter and Fiscal 2017

Cash Flows Generated from Operating Activities

For Q4 2017, cash flows generated from operating activities totalled \$30.2 million, compared to \$9.2 million in Q4 2016. This increase was primarily attributable to higher Adjusted Net Income, a lower use of working capital due to the timing of certain payments and a reduction in the amount of interest paid, offset by higher income tax payments made.

For Fiscal 2017, cash flows generated from operating activities totalled \$112.1 million, compared to \$57.6 million for Fiscal 2016. This increase was primarily due to higher Adjusted Net Income and a lower use of working capital due to the timing of certain payments and increased volume in deferred revenue.

Cash Flows Generated From (Used in) Financing Activities

For Q4 2017, cash flows generated from financing activities totalled \$1.8 million, compared to cash flows of \$11.3 million used in Q4 2016. This change was primarily due to repayments on our Credit Facilities made in Q4 2016, offset by net proceeds received from options exercised in Q4 2017.

For Fiscal 2017, cash flows used in financing activities totalled \$5.1 million, compared to \$33.1 million in Fiscal 2016. This decrease was primarily due to lower net repayments on our Credit Facilities and net proceeds received from options exercised in Fiscal 2017.

Cash Flows Used in Investing Activities

For Q4 2017, cash flows used in investing activities totalled \$11.6 million, compared to \$6.7 million in Q4 2016. This increase was primarily due to timing of capital expenditures related to new stores and store expansions and repositions.

For Fiscal 2017, cash flows used in investing activities totalled \$31.1 million, compared to \$28.2 million in Fiscal 2016. This increase was primarily due to timing of capital expenditures related to new stores and store expansions and repositions.

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at February 26, 2017.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Accounts payable and accrued liabilities	\$ 50,484	\$ -	\$ -	\$ 50,484
Finance lease obligations	766	983	-	1,749
Assumed interest on long-term debt ⁽¹⁾	3,937	4,125	-	8,062
Debt ⁽²⁾	15,321	118,738	-	134,059
Total contractual obligations	<u>\$ 70,508</u>	<u>\$ 123,846</u>	<u>\$ -</u>	<u>\$ 194,354</u>

Notes:

⁽¹⁾ Based on interest rate in effect as at February 26, 2017.

⁽²⁾ The term loan requires mandatory loan prepayments by Aritzia of principal and interest if certain events occur.

Off-Balance Sheet Arrangements and Commitments

The following table summarizes our off-balance sheet arrangements and commitments as at February 26, 2017.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Operating leases	\$ 71,524	\$ 312,995	\$ 324,786	\$ 709,305
Purchase obligations	24,790	-	-	24,790
	<u>\$ 96,314</u>	<u>\$ 312,995</u>	<u>\$ 324,786</u>	<u>\$ 734,095</u>

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

Our third party manufacturers purchase raw materials on our behalf to be used for future production. As at February 26, 2017, we had \$24.8 million of raw materials not already included for use in purchase orders.

We enter into trade letters of credit to facilitate the international purchase of inventory. We also enter into standby letters of credit to secure certain of our obligations, including leases and duties related to import purchases. As at February 26, 2017, letters of credit totalling \$19.3 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 February 26, 2017.

Financial Instruments

We primarily 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. We currently do not apply hedge accounting. 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 (loss). As at February 26, 2017, we had approximately \$27.5 million of U.S. dollar denominated forward contracts outstanding at an average forward rate of 1.3026.

Related Party Transactions

Berkshire Partners LLC ("Berkshire") is the investment manager to private equity funds that indirectly hold an ultimate controlling interest in the Company. Berkshire provided consulting and management advisory services to us pursuant to a Management Agreement dated December 19, 2005. Concurrent with the closing of the IPO, we terminated the Management Agreement with Berkshire.

During the years ended February 26, 2017 and February 28, 2016, we incurred management fees of \$0.2 million and \$0.3 million, respectively, for services rendered. Total reimbursements to Berkshire for travel, lodging and other costs for the years ended February 26, 2017 and February 28, 2016 were \$0.2 million and \$0.1 million, respectively. At February 26, 2017 and February 28, 2016, \$nil and \$0.1 million, respectively, was included in accounts payable and accrued liabilities.

In connection with the IPO and Secondary Offering, we reimbursed in aggregate \$1.4 million in professional fees and other costs to the principal selling shareholders. At February 26, 2017, \$0.9 million was included in accounts payable and accrued liabilities.

During the years ended February 26, 2017 and February 28, 2016, we purchased \$10.8 million and \$7.7 million, respectively, of merchandise from a company partially owned by private equity funds managed by Berkshire. As at February 26, 2017 and February 28, 2016, \$0.1 million and \$0.2 million, respectively, was included in accounts payable and accrued liabilities.

Transactions with Key Management

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

	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks
Salaries, directors' fees and short-term benefits	\$ 3,084	\$ 3,017
Stock-based compensation expense ⁽¹⁾	14,781	202
	<u>\$ 17,865</u>	<u>\$ 3,219</u>

Note:
⁽¹⁾ Stock-based compensation expense for the 52-week period ended February 26, 2017 includes stock-based compensation expense for our legacy time-based and legacy performance-based options, plus stock-based compensation expense for our time-based options under our new stock option plan.

Subsequent Event

Subsequent to year-end, we opened a flagship store in Century City Westfield in Los Angeles, our first location in Southern California, and our sixth Wilfred banner store in Square One Shopping Centre in Toronto. We also repositioned our Richmond Centre location in Greater Vancouver. In addition, Oliver Walsh, who was Chief Marketing Officer, departed the Company to move onto his next endeavor.

Critical Accounting Estimates and Judgments

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

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

Valuation of Finished Goods Inventory

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

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

Impairment of Assets

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

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The

recoverable value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

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

Stock-Based Compensation Expense

Stock-based compensation expense requires the use of estimates in the Black-Scholes option pricing model. The classification of stock options as an equity-settled or cash-settled plan is influenced by judgment in determining the expected settlement of the option. Judgment is also required in determining the timing of expense recognition for performance-based options.

Income Tax Expense

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

Significant New Accounting Standards Adopted

- In December 2014, the IASB issued amendments to International Accounting Standard (“IAS”) 1, “Presentation of Financial Statements”, as part of its major initiative to improve presentation and disclosure in financial reports (the “Disclosure Initiative”). These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. We adopted IAS 1 on our consolidated financial statements during the fiscal year ended February 26, 2017, and no material changes have been made as a result of this amendment to IAS 1.

Significant New Accounting Standards Issued But Not Yet Adopted

- In May 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers”. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. We are currently evaluating the impact of IFRS 15 on our consolidated financial statements and expect to apply the standard in accordance with its future mandatory effective date.
- In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments”, which reflects all phases of the financial instruments project and replaces IAS 39, “Financial Instruments: Recognition and Measurement”, and all previous versions of IFRS 9. The new standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. We are currently evaluating the impact of IFRS 9 on our consolidated financial statements and expect to apply the standard in accordance with its future mandatory effective date.
- In January 2016, the IASB issued IFRS 16, “Leases”, which sets out a new model for lease accounting replacing IAS 17. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. While we are currently evaluating the impact that

this new guidance will have on our consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on our consolidated statements of financial position upon adoption. As a result, we expect IFRS 16 to have a fundamental change to our consolidated statements of financial position. We expect to apply the standard in accordance with its future mandatory effective date.

- In June 2016, the IASB issued amendments to IFRS 2, "Share-based Payment", clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018 with early application permitted. We are currently evaluating the impact of IFRS 2 on our consolidated financial statements and we expect to apply the standard in accordance with its future mandatory effective date.

Outlook

The first quarter of fiscal 2018 is off to a strong start with the Spring and Summer collections being well-received by our customers, putting us on track for our 11th consecutive quarter of positive comparable sales growth.

In April, we opened a flagship store in Century City Westfield in Los Angeles, our first location in Southern California, and our sixth Wilfred banner store in Square One Shopping Centre in Toronto. We also repositioned our Richmond Centre location in Greater Vancouver at the end of April. In addition, we plan to open three to four new stores and expand or reposition five to six existing locations in the remainder of fiscal 2018. This includes the opening of a flagship store on Rush Street in Chicago and the repositioning of an existing San Francisco location into a flagship store on Market Street. We continue to see strong momentum online and are expecting meaningful growth in our eCommerce business in fiscal 2018. This planned increase in our store footprint and anticipated growth in eCommerce will keep us on track with the growth objectives outlined in our five-year plan.

In fiscal 2018, we continue to make strategic investments in the business. The implementation of a new point-of-sale (POS) system is expected to further enhance our omni-channel operations and customer relationship capabilities. In April, we expanded our Columbus area distribution centre capacity from 45,000 square feet to 138,000 square feet. We have also begun the process of relocating and expanding our Greater Vancouver distribution centre, from our existing 83,000 square foot facility into a new 223,000 square foot facility. We expect the new Greater Vancouver distribution centre to be operational by Spring of next year. These investments in systems and infrastructure are expected to drive increased efficiencies and set the stage for our next phase of growth.

The aforementioned description of our potential growth opportunities is based on management's current strategies, our assumptions and expectations concerning our growth outlook and opportunities, and our assessment of the outlook and opportunities for the business and the apparel industry as a whole and may be considered to be forward-looking information for purposes of applicable securities laws in Canada. Readers are cautioned that actual results may vary from those described above. See below and "Forward-Looking Information" and "Risk Factors" in the MD&A and the Company's AIF for a description of the assumptions underlying the forward-looking information and of the risks and uncertainties that impact our business and that could cause actual results to vary.

Implicit in such forward-looking statements are certain assumptions, relating to, among others, the opening of new stores, the expansion or repositioning of existing stores, the achievement of continued comparable sales growth, including growing our eCommerce business, investment on maintenance capital expenditures and infrastructure investments, a U.S. dollar to Canadian dollar exchange rate of 1:1.3, taxation rates consistent with historical levels and debt repayments consistent with the terms set out in the MD&A. These current assumptions, although considered reasonable by us at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Company, including with respect to our anticipated annual net revenue, eCommerce net revenue, Adjusted EBITDA and Adjusted Net Income, are subject to a number of risks and uncertainties, including, among others, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that we may not continue to achieve comparable sales growth.

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.

Financial risk management is carried out under practices approved by our Audit Committee. This includes reviewing and making recommendations to the Board regarding the adequacy of our risk management policies and procedures with regard to identification of the Company's principal risks, and implementation of 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 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 customers, but do have some receivable exposure in relation to tenant improvement allowances. In order to reduce this risk, we enter into leases with landlords with established credit history, and for certain leases, we may offset rent payments until accounts receivable are fully satisfied. We deposit our cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. We only enter into derivative contracts with major financial institutions, as described above, for the purchase of foreign currency forward contracts.

Liquidity risk

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

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, namely the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding public disclosure.

As of February 26, 2017, an evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, was

carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as of February 26, 2017. Although the Company's disclosure controls and procedures were operating effectively as of February 26, 2017, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

Internal Controls over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is responsible for establishing adequate internal control over financial reporting for the Company.

An evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting was conducted as of February 26, 2017. Based on that evaluation, the CEO and the CFO concluded that the design and operation of the Company's internal control over financial reporting, as defined by National Instrument 52-109, were effective. The evaluations were conducted in accordance with the framework and criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Controls systems, no matter how well designed, have inherent limitations. Therefore, even when determined to be designed effectively, disclosure controls and internal control over financial reporting can provide only reasonable assurance with respect to disclosure, reporting and financial statement preparation.

Share Information Prior to the Completion of the IPO

Prior to the completion of the IPO, we had an unlimited authorized number of Class A, B, C and D common shares, with no par value. The Class A, B, C and D common shares were identical, except for an additional 0.001% voting right attached to each Class B common share and no voting right attached to each Class D common share. The Class A, B, C and D common shares ranked *pari passu* in all respects, including the right to receive dividends and upon any distribution of our assets.

Prior to the completion of the IPO, we had 110,987,688 Class A common shares and 62,781,263 Class C common shares issued and outstanding. In addition, there were 28,692,457 options (after giving effect to the cancellation of 898,625 options upon closing), each exercisable for one common share, issued and outstanding. Assuming exercise of all outstanding options, there would have been 202,461,408 common shares issued and outstanding on a fully diluted basis.

Current Share Information

As of May 9, 2017, an aggregate of 53,208,701 Shares, 55,756,002 multiple voting shares and no preferred shares are issued and outstanding. All of the issued and outstanding multiple voting shares are, directly or indirectly, held or controlled by the principal shareholders. As of May 9, 2017, an aggregate of 14,341,152 options to acquire 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 Shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "ATZ".