

# ARITZIA

## Aritzia Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended March 3, 2019

May 9, 2019

*The following Management's Discussion and Analysis ("MD&A") dated May 9, 2019 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Aritzia Inc. (together with its consolidated subsidiaries, referred to herein as "Aritzia", the "Company", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and the fiscal year ended March 3, 2019. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for Fiscal 2019 (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 2019" are to our 14-week period ended March 3, 2019, and to "Q4 2018" are to our 13-week period ended February 25, 2018. All references in this MD&A to "Fiscal 2019" are to our 53-week period ended March 3, 2019, to "Fiscal 2018" are to our 52-week period ended February 25, 2018, to "Fiscal 2017" are to our 52-week period ended February 26, 2017, and to "Fiscal 2020" are to our 52-week period ended March 1, 2020. In addition, references to "Q1 2019" are to our 13-week period ended May 27, 2018, to "Q2 2019" are to our 13-week period ended August 26, 2018, to "Q3 2019" are to our 13-week period ended November 25, 2018, and to "Q1 2020" are to our 13-week period ended June 2, 2019.

The audited annual consolidated financial statements and accompanying notes for Fiscal 2019 and this MD&A were authorized by the Company's Board of Directors.

#### Non-IFRS Measures Including Retail Industry Metrics

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

believe that securities analysts, investors and other interested parties frequently use non-IFRS measures, including retail industry metrics, in the evaluation of issuers. Our management also uses non-IFRS measures, including retail industry metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see the "How We Assess the Performance of Our Business" and "Selected Consolidated Financial Information" sections of this MD&A.

## Forward-Looking Information

Certain statements made in this MD&A may constitute forward-looking information under applicable securities laws. These statements may relate to our future financial outlook and anticipated events or results and include, but are not limited to, expectations regarding the quality of our products and our channel-agnostic client experience, expectations regarding our technology and infrastructure, outlook for 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 and flat gross profit margin, as compared to fiscal 2019, are certain current assumptions, including, among others, the opening of six new boutiques in the U.S. including the Hudson Yards boutique in New York already opened in Q1 2020, three boutique expansions or repositions in Canada including the Maplevue boutique in Greater Toronto already opened in Q1 2020, gross profit margin is expected to be slightly higher in the first half of the year due to occupancy cost leverage being partially offset by the weakening of the Canadian dollar, and slightly lower in the second half of the year due to higher raw material costs for the fall/winter season, the continued ability to drive growth in our eCommerce business, SG&A to grow faster than revenue, as we will continue to make strategic investments in technology and infrastructure to support our long term growth, a portion of the investments related to our eCommerce platform improvements, omni-channel capabilities and other infrastructure including the product life-cycle management and data analytics platforms will be expensed within SG&A, incremental SG&A expenses related to these initiatives in Fiscal 2020 are expected to be approximately \$7 million to \$8 million, and occur primarily in the second and third quarters, net capital expenditures in the range of \$45 million to \$50 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 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 the fiscal year ended March 3, 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](http://www.sedar.com). These factors are not intended to represent a complete list of the factors that could adversely affect the Company's 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. 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 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 25 boutiques in the United States, averaging approximately 6,000 square feet, all of which are in prime locations within high performing retail malls and high streets. We sell our products exclusively through our boutiques and *aritzia.com*, giving us complete control of the presentation of our brand and the relationships with our clients. This strategy allows us to present our brand in a consistent manner, including pricing, marketing and product presentation. We strive to offer our clients an aspirational shopping experience and exceptional level of service at every interaction. Our culture is highly focused on the client, and our sales associates and eCommerce support teams are trained to provide shopping experiences that are personalized to exceed our clients' wants and needs.

## Secondary Offerings

On August 7, 2018, we completed a secondary offering (the "August 2018 Secondary Offering") on a bought deal basis of our subordinate voting shares through a secondary sale of shares by certain shareholders. The August 2018 Secondary Offering of 6,050,000 subordinate voting shares raised gross proceeds of \$100.1 million for the selling shareholders, at a price of \$16.55 per subordinate voting share. We did not receive any proceeds from the August 2018 Secondary Offering. As part of the August 2018 Secondary Offering, certain selling shareholders exchanged 5,880,000 of their multiple voting shares for subordinate voting shares. Underwriting fees were paid by the selling shareholders, and other expenses related to the August 2018 Secondary Offering of \$0.6 million are being paid by us.

Subsequent to the year ended March 3, 2019, 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 are being paid by us and are being 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.

## 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 2019 Compared to Q4 2018*

Select financial highlights include the following:

- Comparable sales growth<sup>(1)</sup> was 5.5%, the 18<sup>th</sup> consecutive quarter of positive growth.
- Net revenue increased by 17.9% to \$259.1 million from \$219.8 million in Q4 2018, with positive performance across all geographies and all channels.
- Gross profit margin was 36.2%, compared to 37.9% in Q4 2018. The decline was primarily due to the weakening of the Canadian dollar.
- Adjusted EBITDA<sup>(1)</sup> increased by 11.7% to \$42.6 million from \$38.1 million in Q4 2018.
- Net income increased by 17.7% to \$18.7 million from \$15.9 million in Q4 2018.
- Adjusted Net Income<sup>(1)</sup> increased by 11.5% to \$25.1 million, or \$0.21 per diluted share<sup>(1)</sup>, from \$22.5 million, or \$0.19 per diluted share<sup>(1)</sup> in Q4 2018.

### ***Fiscal 2019 Compared to Fiscal 2018***

Select financial highlights include the following:

- Comparable sales growth<sup>(1)</sup> was 9.8%, following 6.6% comparable sales growth in Fiscal 2018.
- Net revenue increased by 17.6% to \$874.3 million from \$743.3 million in Fiscal 2018.
- Gross profit margin was 39.2% compared to 39.8% in Fiscal 2018.
- Adjusted EBITDA<sup>(1)</sup> increased by 21.3% to \$161.0 million from \$132.7 million in Fiscal 2018.
- Net income increased by 37.9% to \$78.7 million from \$57.1 million in Fiscal 2018.
- Adjusted Net Income<sup>(1)</sup> increased by 24.5% to \$94.5 million, or \$0.81 per diluted share<sup>(1)</sup>, from \$75.9 million, or \$0.65 per diluted share<sup>(1)</sup> in Fiscal 2018.

### ***Strategic accomplishments for Fiscal 2019***

- Grew boutique network with seven new boutiques: five in Canada, including one in a new market (Quebec City), and two in the United States, both in new markets (San Diego and Washington, D.C.). All boutiques opened in Fiscal 2019 are performing at or above expectations.
- Expanded or repositioned four boutiques, including two expanded flagship locations (Bloor Street in Toronto and Soho in New York).
- Achieved significant eCommerce growth, driven by a continued focus on search engine optimization and core site enhancements.
- Drove product innovation with the successful launch of a leather program and denim brand, as well as an enhanced outerwear program.
- Increased social media and influencer marketing efforts, which fueled brand awareness in the U.S. and contributed to 36% U.S. revenue growth.
- Advanced omni-channel capabilities by opening a new 225,000-square-foot Greater Vancouver distribution centre and upgrading the warehouse management system.

---

#### **Notes :**

<sup>(1)</sup> 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.

## 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. Our demand-driven merchandise planning, buying and inventory strategies have been developed and refined over many years, and are designed to ensure that we have the right product, at the right time, at the right price, in the right quantity and in the right place.

### *Boutique Network Expansion and Enhancement*

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

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

	Q4 2019	Q4 2018	Fiscal 2019	Fiscal 2018
Number of boutiques, beginning of period	92	84	85	79
New boutiques added	-	1	7	6
Boutique repositioned into a flagship boutique <sup>(2)</sup>	(1)	-	(1)	-
Number of boutiques, end of period	91	85	91	85
Boutiques expanded or repositioned	1	2	4	7

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

Subsequent to year end, we opened our Hudson Yards boutique located in New York, and one pop-up boutique (North Park in Dallas), along with the reposition of our Mapleview boutique in Burlington.

## **eCommerce Growth**

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

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

- *Capitalizing on digital marketing channels to drive client acquisition and retention* - We are focusing on digital marketing to engage our existing clients, acquire new clients and drive further brand awareness. Digital marketing programs include search engine optimization enhancements, refinement of our email marketing and further leveraging our social media.
- *Improving the digital experience to enhance the shopping experience online* - *aritzia.com* is an evolving digital representation of our brand, which is designed to inspire our clients' digital shopping experience at every touch point of their journey.
- *Growing our clienteling program using personalization* - We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our clients which will enable us to predict their needs and exceed their expectations. This includes optimizing our online operations to enhance personalization, which we believe will allow us to tailor an experience specific to a client and drive higher conversion and client loyalty.
- *Driving our omni-channel growth and capabilities* - Our clients shop both online and in our boutiques, and we believe there are synergies between our boutique network and *aritzia.com*, with the success of each channel benefiting the other through increased brand awareness and affinity. The successful implementation of our new point-of-sale system is the foundation for a multi-year strategy that is intended to align our people, processes and systems so our clients can shop and receive our products through any of our channels they choose.
- *Enhancing our efforts in international eCommerce business* - Our work to enhance our international website, together with our ability to ship to international markets via *aritzia.com* is setting the foundation for future expansion by gaining brand awareness, gathering intelligence, and identifying international markets to expand our boutique network.

## **Sourcing and Production**

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

## **Infrastructure Investments**

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

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

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

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

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

### ***Consumer Trends***

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

### ***Seasonality***

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

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

First fiscal quarter	19%
Second fiscal quarter	23%
Third fiscal quarter	28%
Fourth fiscal quarter	<u>30%</u>
Yearly total	<u>100%</u>

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

## ***Comparable Sales Growth***

Comparable sales growth is a retail industry metric used to compare the percentage change in sales derived from the established boutiques of a certain period as compared to the sales from the same boutiques in the same period in the prior year. Comparable sales growth helps to explain our revenue growth in established boutiques and eCommerce. Comparable sales is calculated based on revenue (net of sales tax, returns and discounts) from boutiques that have been opened for at least 56 weeks including eCommerce revenue (net of sales tax, returns and discounts), and excludes boutiques that were expanded or repositioned, boutiques in centres where we opened a new additional boutique, boutiques significantly impacted by nearby construction and other similar disruptions during this period and week 53 net revenue, if applicable. Our comparable sales growth calculation excludes the

impact of foreign currency fluctuations. We apply the prior year's average quarterly exchange rate to both current year and prior year comparable sales to achieve a consistent basis for comparison (i.e. on a constant currency basis).

### ***Gross Profit***

Gross profit reflects our net revenue less cost of goods sold. Cost of goods sold includes inventory and product-related costs and occupancy costs, as well as depreciation and amortization expense for our boutiques and distribution centres. Our cost of goods sold may include different costs compared to other retailers. Gross profit margin is impacted by the components of cost of goods sold, product mix and markdowns. Currently our product costs have been pressured by rising materials costs, particularly wool, silk, down, cotton and polyester. We define gross profit margin as our gross profit divided by our net revenues.

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

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

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

### ***EBITDA***

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

### ***Adjusted EBITDA***

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

### ***Adjusted Net Income (per diluted share)***

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

Results and Certain Performance Measures” for a comparison of the impact of the current diluted share calculation versus our prior methodology.

### Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods and fiscal years indicated. The selected consolidated financial information set out below for Fiscal 2019, Fiscal 2018 and Fiscal 2017 has been derived from our audited annual consolidated financial statements and related notes. The selected consolidated financial information set out below for Q4 2019 and Q4 2018 is unaudited.

	Q4 2019 14 weeks	Q4 2018 13 weeks	Fiscal 2019 53 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks
(in thousands of Canadian dollars, unless otherwise noted)					
<b>Consolidated Statements of Operations:</b>					
Net revenue	\$ 259,050	\$ 219,804	\$ 874,296	\$ 743,267	\$ 667,181
Cost of goods sold	165,203	136,519	531,383	447,776	401,658
Gross profit	93,847	83,285	342,913	295,491	265,523
Operating expenses					
Selling, general and administrative	59,349	50,738	215,297	183,857	178,773
Stock-based compensation expense	2,596	5,599	11,540	17,240	103,044
Income (loss) from operations	31,902	26,948	116,076	94,394	(16,294)
Finance expense	1,219	1,318	4,821	5,221	10,455
Other expenses (income)	4,416	(291)	(395)	1,890	(1,362)
Income (loss) before income taxes	26,267	25,921	111,650	87,283	(25,387)
Income tax expense	7,544	10,020	32,922	30,190	30,722
Net income (loss)	\$ 18,723	\$ 15,901	\$ 78,728	\$ 57,093	\$ (56,109)
<b>Percentage of Net Revenue:</b>					
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	63.8%	62.1%	60.8%	60.2%	60.2%
Gross profit	36.2%	37.9%	39.2%	39.8%	39.8%
Operating expenses					
Selling, general and administrative	22.9%	23.1%	24.6%	24.7%	26.8%
Stock-based compensation expense	1.0%	2.5%	1.3%	2.3%	15.4%
Income (loss) from operations	12.3%	12.3%	13.3%	12.7%	(2.4%)
Finance expense	0.5%	0.6%	0.6%	0.7%	1.6%
Other expenses (income)	1.7%	(0.1%)	(0.0%)	0.3%	(0.2%)
Income (loss) before income taxes	10.1%	11.8%	12.8%	11.7%	(3.8%)
Income tax expense	2.9%	4.6%	3.8%	4.1%	4.6%
Net income (loss)	7.2%	7.2%	9.0%	7.7%	(8.4%)
<b>Other Performance Measures:</b>					
Year-over-year net revenue growth	17.9%	11.9%	17.6%	11.4%	23.0%
Comparable sales growth	5.5%	6.0%	9.8%	6.6%	14.1%
Capital cash expenditures (excluding proceeds from leasehold inducements)	\$ 14,677	\$ 18,784	\$ 62,010	\$ 66,330	\$ 31,136
Number of boutiques, end of period	91	85	91	85	79
New boutiques added	-	1	7	6	5
Boutiques expanded or repositioned <sup>(3)</sup>	-	2	3	7	5

Note:

<sup>(3)</sup> Q4 2019 and Fiscal 2019 includes the reposition of one of our banner locations into the flagship boutique located on the same street.

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 2019 14 weeks	Q4 2018 13 weeks	Fiscal 2019 53 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks
(in thousands of Canadian dollars, unless otherwise noted)					
<b>Reconciliation of Net Income (Loss) to Adjusted EBITDA:</b>					
Net income (loss)	\$ 18,723	\$ 15,901	\$ 78,728	\$ 57,093	\$ (56,109)
Depreciation and amortization	7,355	5,961	27,065	22,844	21,129
Finance expense	1,219	1,318	4,821	5,221	10,455
Income tax expense	7,544	10,020	32,922	30,190	30,722
<b>EBITDA</b>	<b>34,841</b>	<b>33,200</b>	<b>143,536</b>	<b>115,348</b>	<b>6,197</b>
<b>Adjustments to EBITDA:</b>					
Stock-based compensation expense	2,596	5,599	11,540	17,240	103,044
Lease exit cost	5,725	-	5,725	-	-
IPO and Secondary Offering costs	(594)	-	(171)	(115)	8,604
Unrealized foreign exchange (gain) loss on forward contracts	-	(698)	415	(233)	(181)
Other non-recurring items <sup>(4)</sup>	-	-	-	476	-
<b>Adjusted EBITDA</b>	<b>\$ 42,568</b>	<b>\$ 38,101</b>	<b>\$ 161,045</b>	<b>\$ 132,716</b>	<b>\$ 117,664</b>
<b>Adjusted EBITDA as a Percentage of Net Revenue</b>	<b>16.4%</b>	<b>17.3%</b>	<b>18.4%</b>	<b>17.9%</b>	<b>17.6%</b>
<b>Reconciliation of Net Income (Loss) to Adjusted Net Income:</b>					
Net income (loss)	\$ 18,723	\$ 15,901	\$ 78,728	\$ 57,093	\$ (56,109)
<b>Adjustments to net income (loss):</b>					
Stock-based compensation expense	2,596	5,599	11,540	17,240	103,044
Lease exit cost	5,725	-	5,725	-	-
IPO and Secondary Offering costs	(594)	-	(171)	(115)	8,604
Unrealized foreign exchange (gain) loss on forward contracts	-	(698)	415	(233)	(181)
Refinancing costs related to debt modification at the IPO	-	-	-	-	2,867
Other non-recurring items <sup>(4)</sup>	-	-	-	476	-
U.S. tax reform impact <sup>(5)</sup>	-	1,503	-	1,503	-
Related tax effects	(1,378)	184	(1,694)	(30)	6,402
<b>Adjusted Net Income</b>	<b>\$ 25,072</b>	<b>\$ 22,489</b>	<b>\$ 94,543</b>	<b>\$ 75,934</b>	<b>\$ 64,627</b>
<b>Adjusted Net Income as a Percentage of Net Revenue</b>	<b>9.7%</b>	<b>10.2%</b>	<b>10.8%</b>	<b>10.2%</b>	<b>9.7%</b>
<b>Weighted Average Number of Diluted Shares Outstanding (thousands)</b>					
<b>Adjusted Net Income per Diluted Share</b>	<b>\$ 0.21</b>	<b>\$ 0.19</b>	<b>\$ 0.81</b>	<b>\$ 0.65</b>	<b>\$ 0.62</b>

Notes:

<sup>(4)</sup> Other non-recurring items in Fiscal 2018 relate to separation costs for a senior Company executive departure.

<sup>(5)</sup> On December 22, 2017, the US Tax Cuts and Jobs Act ("U.S. tax reform") was enacted, reducing the United States federal corporate income tax rate from 35% to 21%. As a result, our US deferred income tax asset was remeasured at the reduced rate, resulting in a nonrecurring charge of \$1.5 million to deferred income tax expense in Q4 2018 and Fiscal 2018.

Q4 2019 14 weeks	Q4 2018 13 weeks	Fiscal 2019 53 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks
---------------------	---------------------	-------------------------	-------------------------	-------------------------

(in thousands of Canadian dollars, unless otherwise noted)

**Reconciliation of Comparable Sales to Net Revenue:**

Comparable sales <sup>(6)</sup>	\$ 205,064	\$ 160,897	\$ 644,957	\$ 540,915	\$ 478,517
Non-comparable sales	53,986	58,907	229,339	202,352	188,664
<b>Net revenue</b>	<b>\$ 259,050</b>	<b>\$ 219,804</b>	<b>\$ 874,296</b>	<b>\$ 743,267</b>	<b>\$ 667,181</b>

**Notes:**

<sup>(6)</sup> 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 and the 14<sup>th</sup> week and 53<sup>rd</sup> week of Q4 2019 and Fiscal 2019, respectively. For more details, please see the "Comparable Sales Growth" subsection of the "How We Assess the Performance of Our Business" section of this MD&A.

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

<b>Selected Consolidated Financial Position Data:</b>	<b>As at March 3, 2019</b>	<b>As at February 25, 2018 (restated)<sup>(7)</sup></b>
Total assets	\$ 629,374	\$ 568,376
Total non-current liabilities	164,454	176,948

**Notes:**

<sup>(7)</sup> See the section below entitled "Significant New Accounting Standards Recently Adopted" for further details concerning the restatement relating to the adoption of new accounting standards.

**Results of Operations**

**Analysis of Results for Q4 2019 to Q4 2018**

The following section provides an overview of our financial performance during Q4 2019 compared to Q4 2018.

**Net Revenue**

Net revenue increased by 17.9% to \$259.1 million in Q4 2019 from \$219.8 million in Q4 2018. The 53<sup>rd</sup> week of Fiscal 2019 provided \$12.2 million of net revenue. Comparable sales growth of 5.5% was driven by momentum in our eCommerce business as well as positive performance across our boutique network in both the U.S. and Canada. Net revenue growth also reflects the addition of seven new boutiques and four expanded or repositioned boutiques since Q4 2018.

**Gross Profit**

Gross profit increased by 12.7% to \$93.8 million compared to \$83.3 million in Q4 2018. As a percent of revenue, gross profit margin declined 170 basis points to 36.2% due primarily to a 140 basis point impact related to the weakening of the Canadian dollar compared to Q4 2018, as well as, continued pressure from higher raw material costs. These factors were partially offset by the benefit from sourcing initiatives, lower markdowns and leverage from rent.

### ***SG&A Expenses***

SG&A expenses increased by 17.0% to \$59.3 million, compared to \$50.7 million in Q4 2018. SG&A expenses were 22.9% of net revenue, a decrease of 20 basis points from Q4 2018. Leverage on fixed costs was partially offset by continued investments in people, technology and infrastructure.

### ***Other Expenses (Income)***

Other expenses were \$4.4 million in Q4 2019, compared to other income of \$0.3 million in Q4 2018.

Other expenses of \$4.4 million in Q4 2019 primarily relates to:

- a lease exit cost of \$5.7 million, partially offset by
- offering transaction cost recoveries of \$0.6 million,
- interest income of \$0.6 million, and
- unrealized and realized operational foreign exchange gains of \$0.1 million.

Other expenses during Q4 2019 primarily consisted of a one-time expense of \$5.7 million related to the exit of a lease commitment for the planned repositioning of one of our flagship boutiques. The commitment was made due to the uncertainty of remaining in the existing location as a result of redevelopment plans which were subsequently abandoned. For brand and financial reasons, we exited the alternative lease commitment, resulting in the one-time expense.

Other income of \$0.3 million in Q4 2018 primarily relates to:

- unrealized foreign exchange gains on forward contracts of \$0.7 million; and
- interest income of \$0.3 million, partially offset by
- realized foreign exchange losses on the settlement of forward contracts of \$0.7 million.

### ***Adjusted EBITDA***

Adjusted EBITDA increased by 11.7% to \$42.6 million, or 16.4% of net revenue in Q4 2019, compared to \$38.1 million, or 17.3% of net revenue in Q4 2018, primarily due to the factors discussed above.

### ***Stock-Based Compensation Expense***

Stock-based compensation decreased by \$3.0 million to \$2.6 million in Q4 2019, compared to \$5.6 million in Q4 2018.

Included in Q4 2019 is \$2.1 million in expenses primarily related to the accounting for options under our new option plan and \$0.5 million in expenses related to the accounting for options under our legacy option plan.

Included in Q4 2018 is \$4.3 million in expenses primarily related to the accounting for options under our new option plan, \$1.2 million in expenses related to the accounting for options under our legacy option plan, and \$0.1 million in expenses related to the accounting for our deferred share units. Included in the expense for options under our new option plan was \$2.3 million recognized from the cancellation of 671,899 time-based options granted to a director and officer. The cancellation of these options results in accelerated vesting in accordance with IFRS 2.

### ***Finance Expense***

Finance expense decreased by \$0.1 million to \$1.2 million in Q4 2019, compared to \$1.3 million in Q4 2018. The decrease was primarily driven by lower average debt outstanding associated with the amendment of our credit facilities in June 2018, partially offset by higher interest rates.

### ***Income Tax Expense***

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rates for Q4 2019 and Q4 2018 were 26.9% and 26.4%, respectively.

Income tax expense decreased by \$2.5 million to \$7.5 million in Q4 2019, compared to \$10.0 million in Q4 2018 and the effective tax rates for Q4 2019 and Q4 2018 were 28.7% and 38.7%, respectively. The decrease in income tax expense is mostly due to a re-measurement of deferred tax assets at a reduced tax rate passed by the U.S. tax reform, resulting in a one-time charge of \$1.5 million to deferred income tax expense in Q4 2018. The decrease in the effective tax rate is primarily driven by this re-measurement adjustment and a decrease in stock-based compensation expense which is not deductible for tax.

### ***Net Income***

Net income increased by 17.7% to \$18.7 million in Q4 2019, compared to net income of \$15.9 million in Q4 2018. This increase is primarily the result of an 17.9% increase in net revenue as well as a decrease in stock-based compensation expense and income tax expense, partially offset by a decrease in gross profit margin, along with an increase in SG&A expenses and other expenses.

### ***Adjusted Net Income***

Adjusted Net Income increased by 11.5% to \$25.1 million, or \$0.21 per diluted share in Q4 2019, compared to \$22.5 million, or \$0.19 per diluted share in Q4 2018 primarily due to the factors described above.

### **Analysis of Results for Fiscal 2019 to Fiscal 2018**

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

#### ***Net Revenue***

Net revenue increased by 17.6% to \$874.3 million in Fiscal 2019, including \$12.2 million from the extra week, compared to \$743.3 million in Fiscal 2018. The increase was primarily driven by the revenue from new, expanded and repositioned boutiques, as well as comparable sales growth of 9.8%, resulting from continued strength in our eCommerce business as well as strong performance in boutiques.

#### ***Gross Profit***

Gross profit increased by 16.0% to \$342.9 million in Fiscal 2019, compared to \$295.5 million in Fiscal 2018. As a percent of revenue, gross profit margin declined 60 basis points to 39.2% due primarily to increased warehousing and distribution costs and the weakening of the Canadian dollar compared to last year.

#### ***SG&A Expenses***

SG&A expenses increased by 17.1% to \$215.3 million, or 24.6% of net revenue in Fiscal 2019, compared to \$183.9 million, or 24.7% of net revenue in Fiscal 2018. The increase in SG&A expenses was primarily due to variable selling expenses driven by higher sales volume, as well as the impact from continued investments in our strategic growth initiatives and infrastructure.

#### ***Other (Income) Expenses***

Other income was \$0.4 million in Fiscal 2019, compared to other expenses of \$1.9 million in Fiscal 2018.

Other income of \$0.4 million in Fiscal 2019 primarily relates to:

- realized foreign exchange gains on the settlement of forward contracts of \$2.3 million,
- realized and unrealized operational foreign exchange gains of \$2.3 million,
- interest income of \$1.7 million, and
- offering transaction cost recoveries of \$0.2 million; partially offset by
- a lease exit cost of \$5.7 million, and
- unrealized foreign exchange losses on forward contracts of \$0.4 million.

The lease exit cost of \$5.7 million related to the exit of a lease commitment for the planned repositioning of one of our flagship boutiques. The commitment was made due to the uncertainty of remaining in the existing location as a result of redevelopment plans which were subsequently abandoned. For brand and financial reasons, we exited the alternative lease commitment, resulting in the one-time expense.

Other expenses of \$1.9 million in Fiscal 2018 primarily relates to:

- realized foreign exchange losses on the settlement of forward contracts of \$2.2 million, and
- realized and unrealized operational foreign exchange losses of \$0.8 million; partially offset by
- interest income of \$0.9 million, and
- unrealized foreign exchange gains on forward contracts of \$0.2 million.

### ***Adjusted EBITDA***

Adjusted EBITDA increased by 21.3% to \$161.0 million, or 18.4% of net revenue in Fiscal 2019, compared to \$132.7 million, or 17.9% of net revenue in Fiscal 2018 primarily due to the factors described above.

### ***Stock-Based Compensation Expense***

Stock-based compensation decreased by \$5.7 million to \$11.5 million in Fiscal 2019, compared to \$17.2 million in Fiscal 2018.

Included in Fiscal 2019 is \$8.6 million in expenses related to the accounting for options under our new option plan, \$2.4 million in expenses related to the accounting for options under our legacy option plan and \$0.5 million in expenses related to the accounting for our deferred share units. Included in Fiscal 2018 is \$11.2 million in expenses related to the accounting for options under our new option plan, \$5.7 million in expenses related to the accounting for options under our legacy option plan and \$0.3 million in expenses related to the accounting for our deferred share units and restricted share units.

### ***Finance Expense***

Finance expense decreased by \$0.4 million to \$4.8 million in Fiscal 2019, compared to \$5.2 million in Fiscal 2018. The decrease is primarily driven by lower average debt outstanding associated with the amendment of our credit facilities in June 2018, partially offset by higher interest rates.

### ***Income Tax Expense***

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

Income tax expense increased by \$2.7 million to \$32.9 million in Fiscal 2019, compared to \$30.2 million in Fiscal 2018 and the effective tax rates for Fiscal 2019 and Fiscal 2018 were 29.5% and 34.6%, respectively. The increase in income tax expense is due to an increase in income from operations. The decrease in the effective tax rate compared

to Fiscal 2018 is due to a decrease in the amount of stock-based compensation expense and a one time re-measurement of deferred tax assets at a reduced rate passed by the U.S. tax reform in the prior year.

***Net Income***

Net income increased by 37.9% to \$78.7 million in Fiscal 2019, compared to net income of \$57.1 million in Fiscal 2018. This increase is primarily the result of a 17.6% increase in net revenue and an increase in other income, as well as a decrease in stock-based compensation expense and finance expense, partially offset by lower gross profit margin and higher SG&A expenses and income tax expense.

***Adjusted Net Income***

Adjusted Net Income increased by 24.5% to \$94.5 million, or \$0.81 per diluted share in Fiscal 2019, compared to \$75.9 million, or \$0.65 per diluted share in Fiscal 2018, primarily due to the factors described above.

## Summary of Consolidated Quarterly Results and Certain Performance Measures

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

	Fiscal 2019				Fiscal 2018			
	Q4 14 weeks	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks	Q4 13 weeks	Q3 13 weeks	Q2 13 weeks	Q1 13 weeks
(in thousands of Canadian dollars, unless otherwise noted)								
<b>Consolidated Statements of Operations:</b>								
Net revenue	\$ 259,050	\$ 242,876	\$ 205,359	\$ 167,011	\$ 219,804	\$ 204,449	\$ 173,968	\$ 145,046
Gross profit	93,847	104,789	76,734	67,543	83,285	91,538	63,130	57,538
Income from operations	31,902	45,339	21,681	16,731	26,948	39,904	15,514	12,028
Net income	18,723	32,600	15,115	12,290	15,901	28,073	4,990	8,129
<b>Percentage of Net Revenue:</b>								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	36.2%	43.1%	37.4%	40.4%	37.9%	44.8%	36.3%	39.7%
Income from operations	12.3%	18.7%	10.6%	10.0%	12.3%	19.5%	8.9%	8.3%
Net income	7.2%	13.4%	7.4%	7.4%	7.2%	13.7%	2.9%	5.6%
Adjusted EBITDA <sup>(8)</sup>	\$ 42,568	\$ 57,093	\$ 33,032	\$ 28,352	\$ 38,101	\$ 49,962	\$ 20,700	\$ 23,953
Adjusted Net Income <sup>(8)</sup>	25,072	35,933	18,295	15,243	22,489	30,595	10,380	12,470
Weighted average number of diluted shares - IFRS (in thousands)	117,488	117,681	117,410	116,780	116,622	116,168	116,244	116,375
Total number of diluted shares - prior methodology (in thousands)	118,049	118,785	117,995	117,519	117,253	116,851	116,745	117,206
<b>Other Performance Measures:</b>								
Comparable Sales Growth <sup>(8)</sup>	5.5%	12.9%	11.5%	10.9%	6.0%	6.3%	5.4%	9.3%
<b>Boutiques</b>								
Number of boutiques, beginning of period	92	90	87	85	84	83	81	79
New boutiques added	-	2	3	2	1	1	2	2
Boutique repositioned into a flagship boutique <sup>(9)</sup>	(1)	-	-	-	-	-	-	-
Number of boutiques, end of period	91	92	90	87	85	84	83	81
Boutiques expanded or repositioned	1	-	1	2	2	3	1	1

Note:

<sup>(8)</sup> 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".

<sup>(9)</sup> Q4 2019 includes the reposition of one of the Company's 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, are expected to be sufficient to meet our future operating expenses, capital expenditures and future debt service requirements. Our ability to fund operating expenses, capital expenditures and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Summary of Factors Affecting Performance" and "Risk Factors" of this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise.

Historically, the funding for any such investments has come from cash flows from operating activities and/or our credit facilities.

### Credit Facilities

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

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

As at March 3, 2019, the aggregate amount outstanding under our term loan credit facility was \$75.0 million. No amounts were drawn on the revolving credit facility as at March 3, 2019. The term loan credit facility requires mandatory loan prepayments by us of principal and interest if certain events occur. See "Contractual Obligations - Off-Balance Sheet Arrangements and Commitments" for letters of credit issued.

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

### Cash Flows

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

	Q4 2019 14 weeks	Q4 2018 13 weeks	Fiscal 2019 53 weeks	Fiscal 2018 52 weeks
	(in thousands of Canadian dollars)			
Net cash (used in) generated from operating activities	\$ (7,386)	\$ 38,809	\$ 96,175	\$ 105,358
Net cash used in financing activities	(56)	(12,694)	(46,193)	(5,974)
Net cash used in investing activities	(14,677)	(18,784)	(62,010)	(66,330)
Effect of exchange rate changes on cash and cash equivalents	(24)	(35)	450	(106)
(Decrease) increase in cash and cash equivalents	<u>\$ (22,143)</u>	<u>\$ 7,296</u>	<u>\$ (11,578)</u>	<u>\$ 32,948</u>

### Analysis of Cash Flows for the Fourth Quarter and Fiscal 2019

#### Cash Flows (Used in) Generated from Operating Activities

For Q4 2019, cash flows used in operating activities totalled \$7.4 million, compared to cash flows of \$38.8 million generated in Q4 2018. This decrease was primarily attributable to a higher use of working capital due to increased volume and the timing of inventory purchases and a decrease in proceeds received from deferred lease inducements, partially offset by higher Adjusted EBITDA.

For Fiscal 2019, cash flows generated from operating activities totalled \$96.2 million, compared to \$105.4 million for Fiscal 2018. This decrease was primarily attributable to a higher use of working capital due to increased volume and the timing of inventory purchases, partially offset by higher Adjusted EBITDA, and lower income tax payments made in Fiscal 2019.

### Cash Flows Used in Financing Activities

For Q4 2019, cash flows used in financing activities totalled \$0.1 million, compared to \$12.7 million used in Q4 2018. This change was primarily due to a repayment on our Credit Facilities made in Q4 2018, partially offset by higher net proceeds received from options exercised in Q4 2018, and repurchase of subordinate voting shares for cancellation in Q4 2019 under our normal course issuer bid.

For Fiscal 2019, cash flows used in financing activities totalled \$46.2 million, compared to \$6.0 million used in Fiscal 2018. This change was primarily due to a \$43.7 million term loan repayment made in Q2 2019 as a result of our debt refinancing and the repurchase of subordinate voting shares for cancellation in Fiscal 2019 under our normal course issuer bid. See "Current Share Information" below.

### Cash Flows Used in Investing Activities

For Q4 2019, cash flows used in investing activities totalled \$14.7 million, compared to \$18.8 million in Q4 2018. Investing activities in Q4 2019 relate to new boutiques and boutique expansions and repositions.

For Fiscal 2019, cash flows used in investing activities totalled \$62.0 million, compared to \$66.3 million in Fiscal 2018. Investing activities in Fiscal 2019 relate to new boutiques and boutique expansions and repositions, as well as investment in our new Greater Vancouver distribution centre.

### Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at March 3, 2019.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Accounts payable and accrued liabilities	\$ 62,736	\$ -	\$ -	\$ 62,736
Assumed interest on long-term debt <sup>(10)</sup>	2,668	5,952	-	8,620
Debt <sup>(11)</sup>	-	75,000	-	75,000
<b>Total contractual obligations</b>	<b>\$ 65,404</b>	<b>\$ 80,952</b>	<b>\$ -</b>	<b>\$ 146,356</b>

#### Notes:

<sup>(10)</sup> Based on interest rate in effect as at March 3, 2019.

<sup>(11)</sup> The Credit Facilities require mandatory loan prepayments by Aritzia of principal and interest if certain events occur. The Credit Facilities mature on May 22, 2022 and have no scheduled principal payments prior to maturity.

### Off-Balance Sheet Arrangements and Commitments

The following table summarizes our off-balance sheet arrangements and commitments as at March 3, 2019.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(in thousands of Canadian dollars)			
Operating leases	\$ 83,551	\$ 356,517	\$ 235,354	\$ 675,422
Product purchase obligations	45,636	-	-	45,636
	<b>\$ 129,187</b>	<b>\$ 356,517</b>	<b>\$ 235,354</b>	<b>\$ 721,058</b>

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 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 March 3, 2019, we had purchase obligations of \$45.6 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 March 3, 2019, letters of credit totalling \$43.1 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 March 3, 2019.

Subsequent to year end, we entered into additional operating leases, increasing the total minimum lease commitments by \$20.4 million (excluding other occupancy charges and rent based on percentage of revenue).

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

## Financial Instruments

From time to time, we use foreign currency forward contracts to manage our exposure to fluctuations with respect to the U.S. dollar for U.S. dollar merchandise purchases sold in Canada. The fair value of the forward contracts is included in prepaid expenses and other current assets or in accounts payable and accrued liabilities, depending on whether they represent assets or liabilities to us. Changes in the fair value of foreign currency forward contracts are recorded in net income. As at March 3, 2019, we did not have any outstanding foreign currency forward contracts.

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

Prior to the August 2018 Secondary Offering, we were ultimately controlled by Canada Retail Holdings, L.P., our ultimate parent and the Berkshire Shareholder. Effective August 7, 2018, upon completion of the August 2018 Secondary Offering, neither Canada Retail Holdings, L.P. nor any other entity maintained ultimate control of us. Subsequent to the year ended March 3, 2019, upon completion of the March 2019 Secondary Offering and Share Repurchase, the Berkshire Shareholder sold its entire investment in us. As a result, effective March 8, 2019, the Company is ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company ("Principal Shareholder").

We entered into the following transactions with related parties:

Total reimbursements to Berkshire for travel, lodging and other costs for the year ended March 3, 2019 was \$59 (February 25, 2018 - \$66). As at March 3, 2019, \$nil was included in accounts payable and accrued liabilities (February 25, 2018 - \$nil).

In connection with the March 2019 Secondary Offering and Share Repurchase, we incurred an aggregate of \$2.5 million in professional fees and other costs, \$185 of which are costs incurred on behalf of the selling shareholders. At March 3, 2019, \$2.5 million was included in accounts receivable, which represents the full amount being reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder. Also in connection with the March 2019 Secondary Offering and Share Repurchase, \$0.7 million in costs relating to our IPO, previously included in accounts payable and accrued liabilities, was extinguished.

During the year ended March 3, 2019, we paid \$4.1 million (February 25, 2018 - \$3.6 million), for rent of premises and \$0.9 million (February 25, 2018 - \$0.4 million) for the use of a leased asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at March 3, 2019, \$71 was included in accounts payable and accrued liabilities (February 25, 2018 - \$100) and \$52 was included in prepaid expenses and other current assets (February 25, 2018 - \$nil).

During the year ended February 25, 2018, we purchased \$8.3 million of merchandise from a company partially owned by private equity funds managed by Berkshire. In August 2017, Berkshire exited its investment from the merchandise company; as such, purchases from the merchandise company subsequent to August 2017 are not considered related party transactions.

## Transactions with Key Management

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

	Q4 2019 14 weeks	Q4 2018 13 weeks	Fiscal 2019 53 weeks	Fiscal 2018 52 weeks
	(in thousands of Canadian dollars)			
Salaries, directors' fees and short-term benefits	\$ 980	\$ 852	\$ 3,478	\$ 3,117
Stock-based compensation expense <sup>(12)</sup>	645	3,326	3,695	7,358
	<u>\$ 1,625</u>	<u>\$ 4,178</u>	<u>\$ 7,173</u>	<u>\$ 10,475</u>

Notes:

<sup>(12)</sup> Included in the expense for Q4 2018 and Fiscal 2018 was \$2.3 million of expense recognized from the cancellation of 671,899 time-based options granted to a director and officer of the Company. The cancellation of these options resulted in accelerated vesting in accordance with IFRS 2.

### Critical Accounting Estimates and Judgments

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

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

#### *Valuation of Finished Goods Inventory*

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

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

#### *Impairment of Assets*

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

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

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

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

### ***Stock-Based Compensation Expense***

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

### ***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 Adopted**

#### ***IFRS 15 - Revenue from Contracts with Customers***

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

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

	As at February 25, 2018			As at February 26, 2017		
	As previously reported	IFRS 15 adjustments	As restated	As previously reported	IFRS 15 adjustments	As restated
Prepaid expenses and other current assets	15,307	698	16,005	12,743	696	13,439
Accounts payable and accrued liabilities <sup>(13)</sup>	66,594	698	67,292	51,250	696	51,946

<sup>(13)</sup> Includes current portion of lease obligation

### ***IFRS 9 - Financial Instruments: Classification and Measurement and Impairment***

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

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

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss model (“ECL”). This new model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

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

### ***Amendments to IFRS 2 - Share-based Payment***

Effective February 26, 2018, we adopted amendments to IFRS 2, issued in June 2016, which clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018. The adoption of the amendments to IFRS 2 did not have a material impact on our consolidated financial statements.

### **Significant New Accounting Standards Issued But Not Yet Adopted**

#### ***IFRS 16 - Leases***

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17, “Leases”. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease.

Transitional provisions have been provided. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been adopted.

We will apply the new standard for Fiscal 2020 using the modified retrospective method. The modified retrospective method applies the requirements of IFRS 16 retrospectively with no restatement of the comparative period.

The new standard is expected to materially increase the assets and liabilities on the consolidated statement of financial position as the majority of our operating leases disclosed in the “Contractual Obligations” section of this MD&A are in scope for IFRS 16. Based on the information as at March 3, 2019, as a result of the initial application of the standard, we estimate to recognize approximately \$460 million to \$510 million of lease liabilities and \$340 million to \$390 million of right-of-use assets on our consolidated statements of financial position. The difference, net of the deferred tax impact, will be recorded in opening retained earnings. The right-of-use assets will be depreciated on a straight-line basis over the remaining lease term. The lease liability will be carried at amortized cost with a finance charge recorded from the amortization of the lease liability discount. The depreciation expense of the right-of-use assets and the finance charge of the lease liability will partially replace 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 will continue to be expensed as incurred.

The new standard will not change the amount of cash transferred between the lessor and lessee, but will change the presentation of the operating and financing cash flows presented in our consolidated statement of cash flows.

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

- i) recognition exemption of short term leases;
- ii) recognition exemption of low-value leases; and
- iii) grandfather prior conclusions on contracts containing leases.

### ***Annual Improvements***

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

### **Outlook**

The first quarter of Fiscal 2020 is off to a strong start with the spring and summer collections being well-received by clients, with quarter to date comparable sales growth trending sequentially higher than Q4 2019.

For Fiscal 2020, we currently expect the following:

- Net revenue growth in the low double-digits.
- Six new boutiques in the U.S., including the Hudson Yards boutique in New York already opened in the first quarter.
- Three boutique expansions or repositions in Canada, including the expansion of the Mapleview boutique in greater Toronto already opened in the first quarter.
- Gross profit margin flat as compared to Fiscal 2019. Gross profit margin is expected to be slightly higher in the first half of the year due to occupancy cost leverage being partially offset by the weakening of the Canadian dollar, and slightly lower in the second half of the year due to higher raw material costs for the fall/winter season.
- SG&A to grow faster than revenue, as we will continue to make strategic investments in technology and infrastructure to support our long term growth. A portion of the investments related to our eCommerce

platform improvements, omni-channel capabilities and other infrastructure including the product life-cycle management and data analytics platforms will be expensed within SG&A. Incremental SG&A expenses related to these initiatives in Fiscal 2020 are expected to be approximately \$7 million to \$8 million, and occur primarily in the second and third quarters.

- Net capital expenditures in the range of \$45 million to \$50 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 our AIF, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

### ***Foreign Exchange Risk***

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

### ***Interest Rate Risk***

We are exposed to changes in interest rates on our cash and cash equivalents, bank indebtedness and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. During Fiscal 2019, we had only variable interest rate debt.

### ***Credit Risk***

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

### ***Liquidity risk***

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

## Controls and Procedures

### *Disclosure Controls and Procedures*

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

As required by CSA National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), an evaluation of the adequacy of the design (quarterly) and effective operation (annually) of the Company's disclosure controls and procedures was conducted under the supervision of management, including the CEO and CFO, as at March 3, 2019. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures were effective as at March 3, 2019.

Although the Company's disclosure controls and procedures were operating effectively as of March 3, 2019, 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 Control over Financial Reporting*

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

As also required by NI 52-109, management, including the CEO and CFO, evaluated the adequacy of the design (quarterly) and the effective operation (annually) of the Company's internal control over financial reporting as defined in NI 52-109, as at March 3, 2019. In making this assessment, management, including the CEO and CFO, used the framework set forth in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at March 3, 2019.

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

### *Changes in Internal Control Over Financial Reporting*

There have been no changes in our internal controls over financial reporting during the quarter and year ended March 3, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## Current Share Information

On May 10, 2018, we announced the commencement of a normal course issuer bid ("NCIB") to purchase and cancel up to 5,429,658 subordinate voting shares commencing May 15, 2018 and ending May 14, 2019. During Fiscal 2019, we repurchased 549,880 subordinate voting shares for cancellation at an average price of \$17.07 per

subordinate voting share, for total cash consideration of \$9.4 million. Due to the Share Repurchase, we have suspended further purchases under our NCIB. We will evaluate renewing our NCIB in due course.

On May 31, 2018, we entered into an automated share purchase plan ("ASPP") with a designated broker for the purpose of permitting us to purchase our subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by us under the ASPP. We record a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP. On March 3, 2019, we cancelled our ASPP.

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

As of May 8, 2019, an aggregate of 83,238,108 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 Shareholder. As of May 8, 2019, an aggregate of 9,617,605 options to acquire subordinate voting shares are outstanding.

See "Secondary Offerings" section of this MD&A for further details on current share information.

#### **Additional Information**

Additional information relating to the Company, including the Company's AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company's Shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "ATZ".