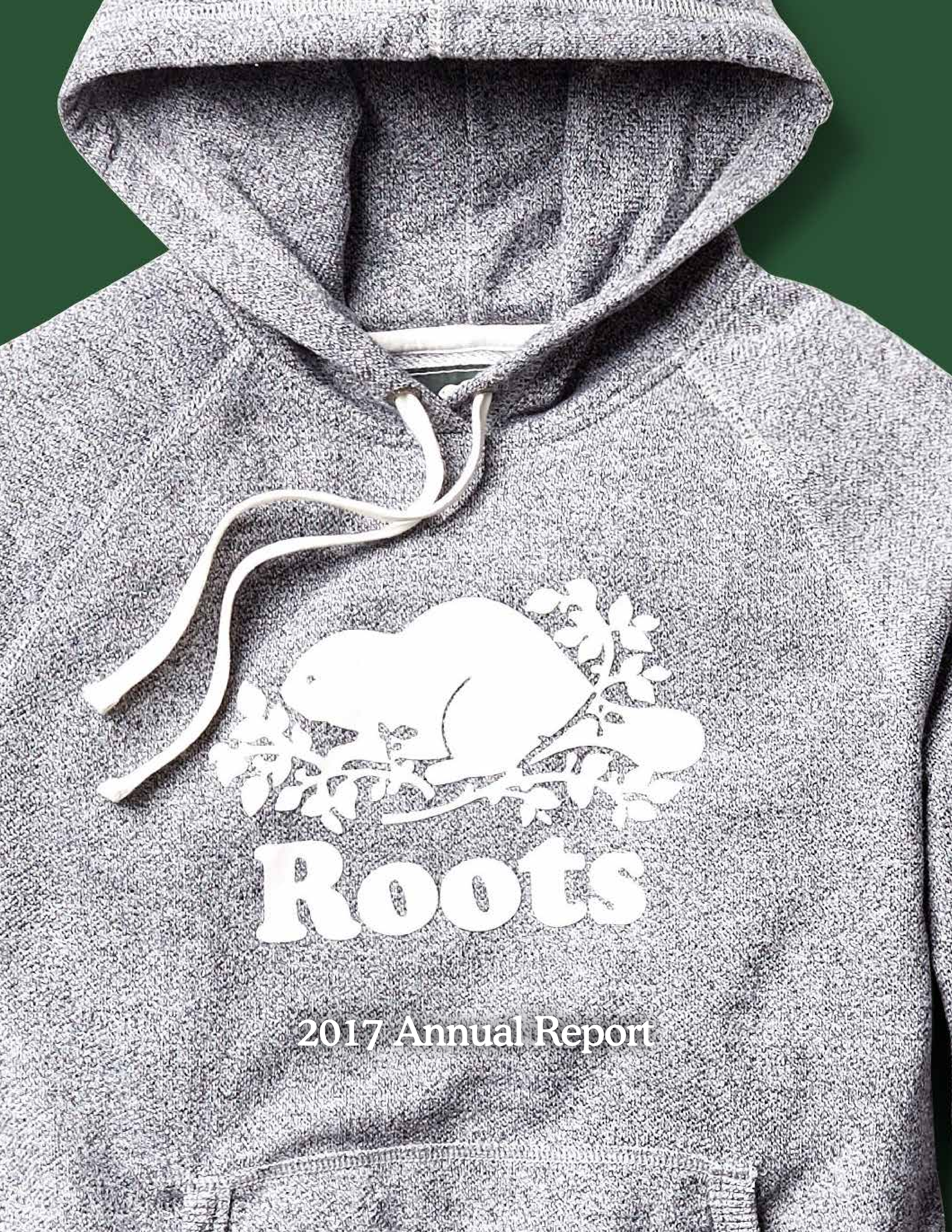


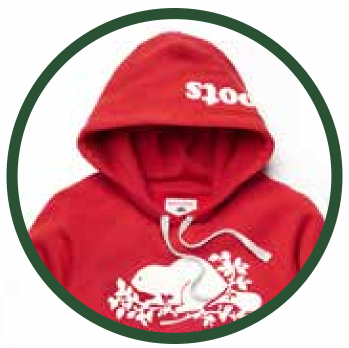
2017 Annual Report

Building a Legendary Global Brand.

What started as one store in Toronto, Canada in 1973, has grown into a 2,200-plus person organization with more than 260 stores across four countries. Roots is a high-performance, omni-channel retailer with an iconic brand at our core.

We are not defined by one product, season, geography, or demographic. We are a premium lifestyle collection for those who want to enjoy the moment, embrace the spirit of the open air and express their unique personality and style. Quality, comfort and craftmanship contribute to the legendary feeling of our products and are why consumers fall in love with Roots. It is not only how our authentic products feel, but it is also how consumers feel when wearing Roots.

Since going public in October 2017, we have focused on executing our plans to unlock Roots potential. While we have seen success to date, we still have big aspirations. We are confident we have significant room to grow, and that we have the right team and strategy in place. Our impressive Fiscal 2017 results prove that we are on the right track.



Roots Fleece: All of our sweats start with high-quality yarns. A unique blended cotton knit creates the much-loved look and feel of our exclusive fleece. Once the fabric is made, it's washed and brushed for added softness. Brushing the fabric loosens the underside of the knit, leaving that lasting, cozy feeling.

Growth Feels Good.

FISCAL 2017 SALES

+15.7%

FISCAL 2017 ADJUSTED EBITDA

+26.6%

FISCAL 2017 ADJUSTED NET INCOME PER SHARE

+35.3%

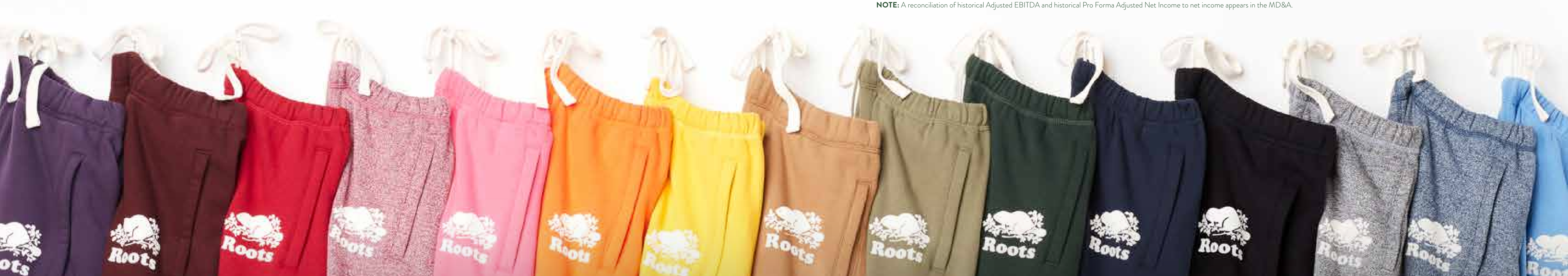
12.1%

FISCAL 2017 COMPARABLE SALES GROWTH

206
basis point improvement

FISCAL 2017 ADJUSTED DIRECT-TO-CONSUMER GROSS MARGIN

NOTE: A reconciliation of historical Adjusted EBITDA and historical Pro Forma Adjusted Net Income to net income appears in the MD&A.



DISCLAIMER

All figures discussed in this annual report are stated in $CAD millions, unless otherwise noted.

NON-IFRS MEASURES AND INDUSTRY METRICS

This annual report makes reference to certain non-IFRS measures including certain metrics specific to the industry in which we operate. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and, therefore, may not 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 are not intended to represent, and should not be considered as alternatives to net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including EBITDA, adjusted EBITDA, adjusted net income, adjusted net income per diluted share, and Adjusted Direct-to-Consumer Gross Margin. This annual report also refers to comparable sales growth, a commonly used metric in our industry but that may be calculated differently compared to other companies. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A under "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics", which is available on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

Certain information in this annual report contains forward-looking information. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and are made as of April 17, 2018. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. 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.

See "– forward-looking Cautionary Note regarding "Forward-Looking Information" and "Risks and Uncertainties" in the Company's MD&A and "Forward-Looking Statements" and "Risk Factors" in the Company's AIF dated April 17, 2018, which are available on SEDAR at www.sedar.com, for a discussion of the uncertainties, risks and assumptions associated with these statements. Readers are urged to consider the uncertainties, risks and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. 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 law.

Growth Built on our Guiding Principles.

Roots today is a high-performance and admired omni-channel retailer, and everything we do is with the best interest of the Roots brand in mind. We will deliver continued growth without losing sight of who we are and what we stand for.

Roots style and deep-rooted connection with the consumer are unique. Both are guided by the principles that are foundational to our brand: Confidence, Authenticity, Quality and Integrity. These guiding principles are why we have endured the test of time, and are strong, if not stronger, today as we expand on the global stage.

At the time of our IPO, we shared the details of our five growth strategies, and throughout Fiscal 2017, we made meaningful progress against each of them.

LEVERAGE THE OPERATIONAL INVESTMENTS WE HAVE BEEN MAKING

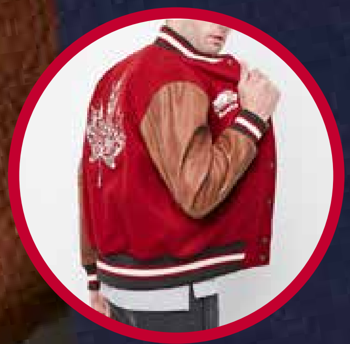
Our plan isn't about changing Roots, it is to strategically invest in the business to unlock the potential of the brand and business. Starting in Fiscal 2016, we implemented a number of transformative initiatives designed to strengthen and drive efficiencies across the business.

In Fiscal 2017, we continued to invest while also starting to leverage the investments we had made in the prior year, in people, systems and platforms, to best position the company for optimal performance. In addition, our commitment to building a consumer-focused global brand range drove further efficiencies and fueled top-line improvements. We invested in marketing to build our brand, launch new products, and establish stronger connections with our customers and the store communities in which we operate, while also overhauling our website, www.Roots.com in our commitment to offering a seamless omni-channel shopping experience for our consumers.

CONTINUED GROWTH IN CANADA

With such a storied history in Canada, and aided brand awareness of 99%[1], we approach the market with a great deal of confidence. Canadian consumers have known us and loved us for 44 years. We deeply value that unique connection and relationship and never want to take it for granted. That is why we are committed to making their experience with Roots even better, both in-store and online. In Fiscal 2017, we renovated one store; relocated one store; relocated and expanded three stores; and opened two net new stores. Further, the release of our enhanced e-commerce retail platform significantly improved functionality of our seamless omni-channel shopping experience. Today, consumers coast-to-coast can order online, pick-up in-store, return to store, or have an item shipped directly to their home.

99% aided brand awareness & Top 10 Canadian brand[2]



The Roots Award Jacket: First created in 1979, this iconic piece of our heritage has become an emblem of style and Canadian craftsmanship. Handcrafted in Canada, each jacket is made with our exclusive leathers and high quality, woollen melton. No detail is overlooked: every sleeve is cut by hand; our chenille crests are hand-trimmed; and our Roots logo is embroidered on for a signature finish.

[1] In home market primarily through word-of-mouth advertising and decades of celebrity and professional athlete affirmation

[2] Named by Canadian Business in 2016 and 2017

STRATEGICALLY EXPAND FOOTPRINT IN THE UNITED STATES

We are taking a very thoughtful, analytical and pragmatic approach to capitalizing on an attractive long-term opportunity for us in the United States. After extensive market research and honing of our strategy, we identified the Northeast and Midwest regions of the U.S. as our primary go-to market targets through Fiscal 2019.

Responding to our consumers' requests to experience Roots stores in the U.S., we are strategically expanding our footprint and proven omni-channel solution in the U.S. We are building on our three legacy and profitable locations in the U.S. and almost two-decades of shipping to all 50 states. We signed four leases in Q3 Fiscal 2017. We are opening two new stores in the Greater Boston area in June 2018 and another two new locations in the Washington D.C. area in August 2018. In addition, we have announced plans to expand into Chicago in Fiscal 2019.

ship to 50 states

EXPAND IN INTERNATIONAL MARKETS

The fact that we have more stores outside of North America is a strong testament to how well Roots resonates internationally. Canada will always be at the heart and soul of our business, but our guiding principals and premium lifestyle products transcend boarders. Our products are worn by consumers and celebrities around the world.

During Fiscal 2017, we added a total of 13 net new partner-operated stores in Taiwan and China, bringing the total count to 110 in Taiwan and 32 in China at Fiscal year-end. We also shipped to more than 50 countries world-wide during Fiscal 2017.

110 partner-operated stores in Taiwan

32 partner-operated stores in China

DEEPEN OFFERING IN LEATHER AND FOOTWEAR

Leather and footwear is part of our DNA. It is where we started, with our world-famous negative heel shoe in 1973. For Fiscal 2017, our focus was to invest in our Toronto-based leather manufacturing operation and set the stage for accelerated growth in fiscal 2019 and beyond. We built a custom application to navigate our customer through a customization experience and piloted it in Q4 Fiscal 2017. In terms of footwear, we signed a partnership with a leading global manufacturer of leather footwear, and we are bringing a feature-rich, highly-functional and enhanced footwear collection to a meaningful number of our stores and online in the fall of Fiscal 2018.

Groundwork for accelerated growth

From our Chairman

Fellow Shareholders:

It is with great excitement that I write my first letter as Chairman of Roots, especially following such a successful Fiscal 2017.

When Searchlight bought Roots in December 2015, we acquired a thriving business that has a rich Canadian heritage, an iconic brand, an established omni-channel platform and a large international retail footprint. Equally importantly, it was a business with significant untapped growth potential. Fast forward two-years, and it is incredibly impressive how much the Company has accomplished. Under the guidance of a new senior management team, we saw the implementation of initiatives to increase store productivity, recognize efficiencies throughout the business, improve our approach toward product and merchandising, optimize our real estate portfolio, amplify our marketing programs, expand our international footprint, enhance our omni-channel shopping experience and evolve the already amazing Roots culture to include a greater focus on performance. The new group of deeply experienced leaders also introduced and started to execute against a strategic vision that positions Roots as an iconic global brand.

Our expectation when we bought Roots was that the Company would go public when there was a solid foundation upon which we could continue to build and deliver accelerated growth. When we went public in October 2017, it was following impressive Fiscal 2016 year-over-year results. With Fiscal 2017 Comparable Sales Growth of 12.1%, and sales and Adjusted EBITDA increasing 15.7% and 26.6% year-over-year, respectively, we set new record highs. We believe our Fiscal 2017 results are a powerful representation of the strength of the Roots brand, as well as the momentum we have achieved with key operational investments and our strategic growth initiatives.

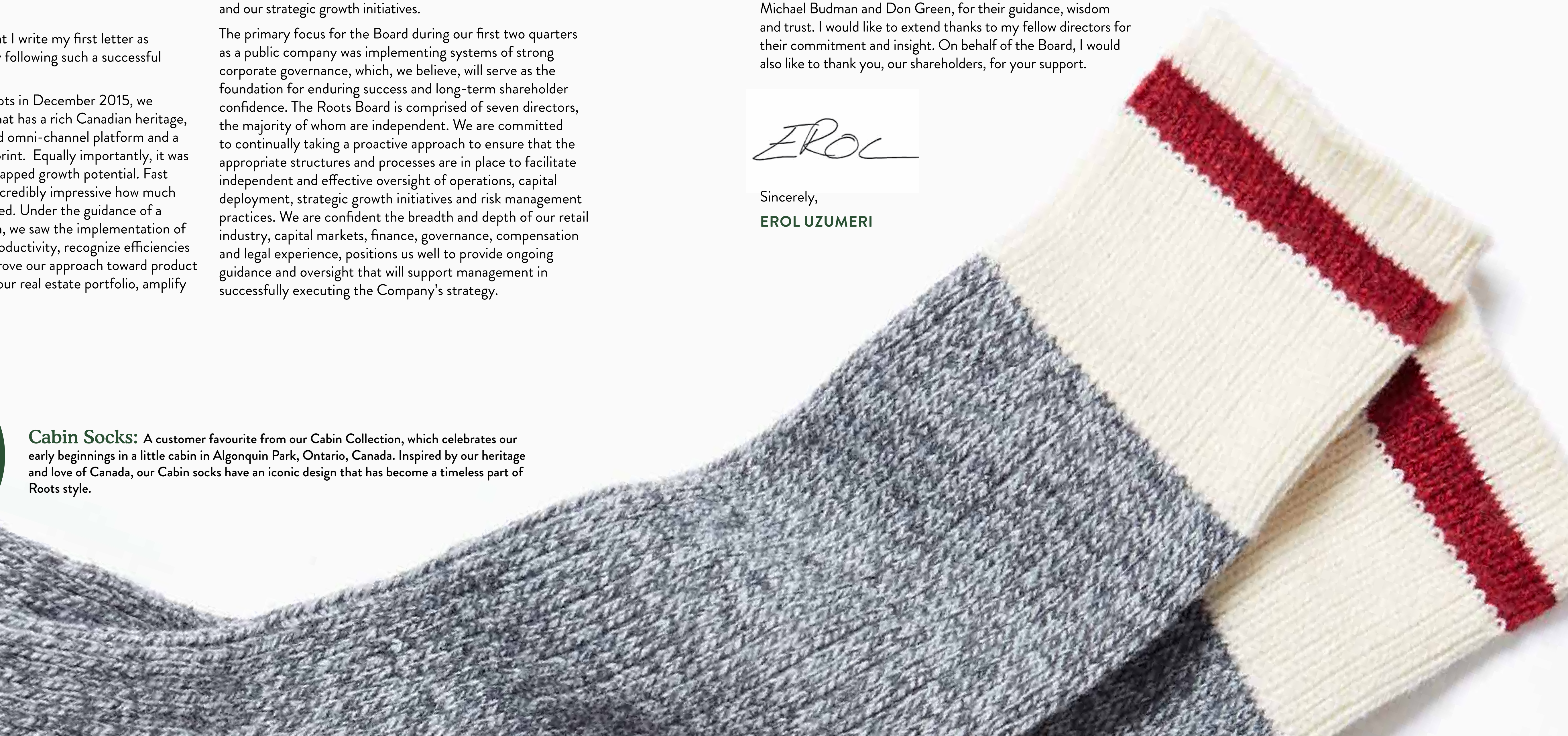
The primary focus for the Board during our first two quarters as a public company was implementing systems of strong corporate governance, which, we believe, will serve as the foundation for enduring success and long-term shareholder confidence. The Roots Board is comprised of seven directors, the majority of whom are independent. We are committed to continually taking a proactive approach to ensure that the appropriate structures and processes are in place to facilitate independent and effective oversight of operations, capital deployment, strategic growth initiatives and risk management practices. We are confident the breadth and depth of our retail industry, capital markets, finance, governance, compensation and legal experience, positions us well to provide ongoing guidance and oversight that will support management in successfully executing the Company's strategy.

Further, as directors of the Company, we recognize our responsibility to ensure that the Company's organizational and compensation structure are designed to encourage long-term value creation for the benefit of all stakeholders. As such, we engaged third-party expertise to assist in the development of a compensation and performance framework for measuring and evaluating the performance of senior management.

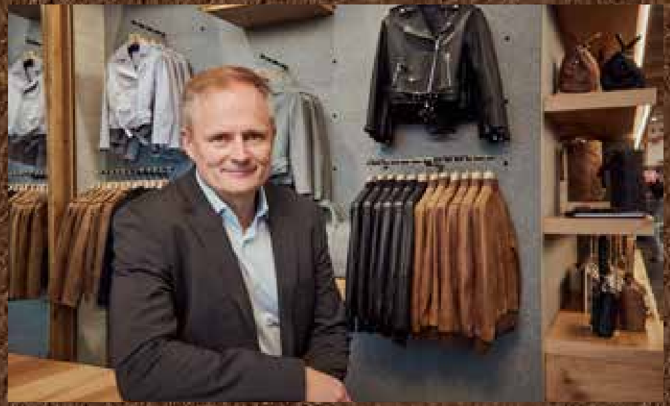
Fiscal 2017 was an impressive start to Roots journey as a public company. The Board is committed to working closely with management to ensure that we continue to delight our consumers with our brand experience, and that we are best capitalizing on the global market opportunities in front of us. I am confident Roots has the right strategy and the right leadership, as well as an outstanding and dedicated team of more than 2,200 people who will continue driving growth and creating shareholder value. I would like to thank the founders of Roots, Michael Budman and Don Green, for their guidance, wisdom and trust. I would like to extend thanks to my fellow directors for their commitment and insight. On behalf of the Board, I would also like to thank you, our shareholders, for your support.

Sincerely,

EROL UZUMERI



Cabin Socks: A customer favourite from our Cabin Collection, which celebrates our early beginnings in a little cabin in Algonquin Park, Ontario, Canada. Inspired by our heritage and love of Canada, our Cabin socks have an iconic design that has become a timeless part of Roots style.



From our President & CEO

Fellow Shareholders:

Like many of our customers, I grew up with Roots. When I joined the Company in early 2016, I saw an amazing opportunity to become part of a business and iconic brand with significant upside potential. With the right team and strategy in place, and the support of our shareholders, we could unlock the full power of the brand and deliver accelerated growth. In Fiscal 2017, we started to do just that. As a result, we recorded the strongest year in Roots 44-year history.

FISCAL 2017 PERFORMANCE

Comparable, or same store, Sales Growth was 12.1% and 20.4% on a two-year stacked basis, which far outpaced industry averages. Reflecting our sales success in-store and online, as well as the expansion of our Canadian and international retail footprint, total sales for the year increased 15.7% year-over-year to $326.1 million. In addition, with an Adjusted Direct-to-Consumer Gross Margin of 59.4%, we delivered a 206-basis point improvement over Fiscal 2016, which is helping fuel our investments in the growth of the brand and the business.

On account of our top line improvements and expanding margins, we delivered record profitability. Adjusted EBITDA grew 26.6% to $52.6 million. Benefitting further from a decrease in our effective tax rate and reduction in interest expense, our Adjusted Net Income increased a particularly impressive 35.7% over Fiscal 2016 to $29.1 million, or $0.69 per share. We also reduced our total bank debt by approximately 20 percent, which drove our net debt ratio down to 1.57 times compared to 2.51 times at the end of Fiscal 2016.

TRANSFORMING THE BUSINESS AND MODERNIZING THE BRAND

During the year, we made meaningful progress against our three-year plan to transform the business and modernize the brand. We bolstered our senior management team, adding key new roles. We also professionalized our approach to how we analyze, set strategy and operate the business. Our senior management team shares a deep passion for Roots and brings a track record of proven experience. We are well-positioned to lead the multiple workstreams that will drive efficiencies and unlock the potential of our people and our business.

OPERATIONS

In Fiscal 2017, we saw an increase in store traffic, conversion rates and average selling price. e-Commerce gained momentum, and it was the fastest growing part of our business. With our overhaul of the consumer-facing www.Roots.com, we are confident we are marching swiftly toward our stated target of e-commerce representing 20 to 22% of our Direct-to-Consumer business by the end of Fiscal 2019.

We executed many unique marketing programs throughout the year, including our Nice campaign and our first-ever digital fashion show, Northern Light. In addition, with our focus on building a consumer-focused global brand range, we delivered double-digits sales growth and margin improvements with a reduced SKU base. Editing out slow sellers and amplifying stronger performing products is proving to be the right approach to driving long-term sustainable success.

RETAIL FOOTPRINT

Canada remains a very important market for us, in-store and online. In fact, we believe that we can double our Canadian business over the long-term. As such, we continued to optimize our retail store portfolio during the Fiscal year. We ended the year with 116 stores in Canada. In August of 2017, we unveiled our "Enhanced Experience" Store in Yorkdale Mall.

The new store design reinterprets the consumers' experience and establishes a deeper connection with the Roots brand and our products. Consumers and the retail industry are applauding our leather customization experience, elevated visual merchandising, enhanced change rooms and proven omni-channel capabilities. In Fiscal 2018, with our plans to open four to five new corporate retail locations in Canada and further enhance our existing store portfolio, we will apply learnings from the important investments we made in this new store format.

Outside of Canada, we solidified plans to build on our portfolio of three legacy stores in the United States. We are opening two new stores in the greater Boston area in June 2018, two in the Washington D.C. area in August 2018, and we have announced plans to expand into Chicago in 2019. We are well-positioned to achieve our target of adding 10 to 14 U.S. stores by the end of Fiscal 2019. Long-term, we believe the U.S. represents a minimum 100-store opportunity for us. Through www.Roots.com, we already have reach across the entire country, as we ship to all 50 states.

Our longstanding international partner added 13 net new stores in Asia, including their first "Enhanced Experience" store in the Taiwan epicenter, Taipei 101. We expect to see strong store openings by our partner in China and Taiwan through Fiscal 2018, and we remain on-track to achieve our target of adding 20 to 25 new stores from the date of our final prospectus through to the end of Fiscal 2019. In Fiscal 2018, we will accelerate our plans to expand into new international markets, working with our existing partner, while also forging relationships with potential new partners.

STAYING TRUE TO OUR ROOTS

Throughout Fiscal 2017, Roots underwent considerable change. The key to our success was that we never lost sight of servicing our customers and building our brand's unique and cherished culture. This speaks to the strength of the overall organization. Our ability to effectively communicate across the Company and unite together has enabled us to remain nimble and move quickly in transforming the business, delivering on our corporate goals and transitioning into a performance-driven culture.

OUTLOOK

Looking back at Fiscal 2017, we accomplished what we set out to do. We ended the year stronger than we began in every way. I am looking forward to a successful Fiscal 2018 that will progress us closer to our Fiscal 2019 targets of sales of $410 million to $450 million; Adjusted EBITDA of $61 million to $68 million; and Adjusted Net Income of $35 million to $40 million. While we expect two-thirds of our growth through to Fiscal 2019 to come from Canada, I am confident in our ability to execute on all five growth initiatives that we set out at the time of our IPO. Through these efforts, we will continue to propel Roots forward as a legendary global brand and build further shareholder value.

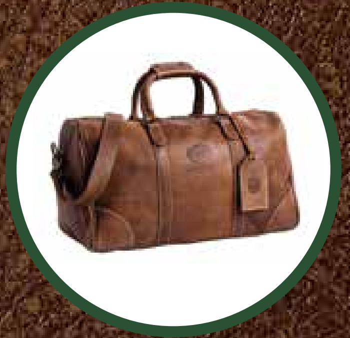
IN APPRECIATION

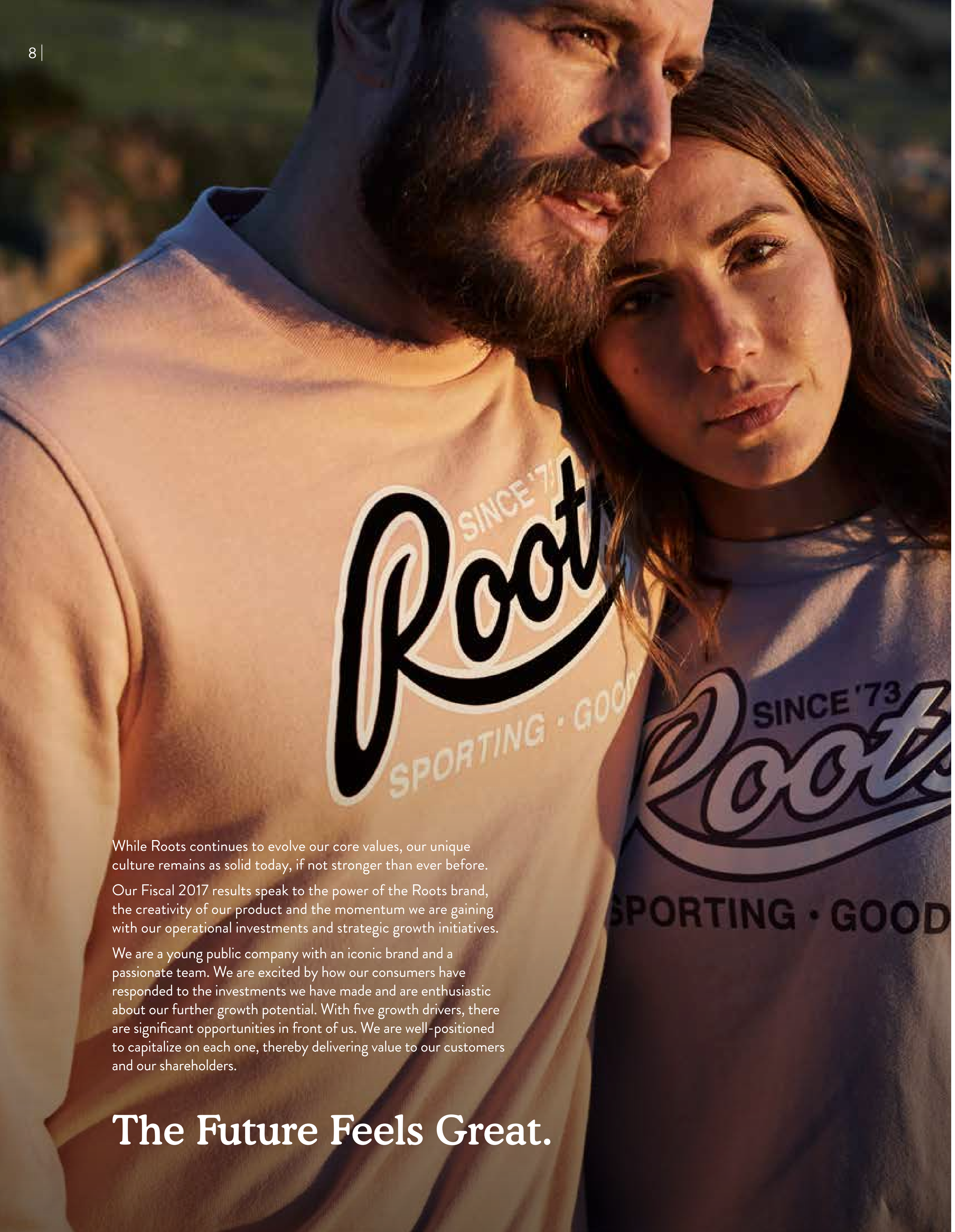
2017 was a milestone year for Canada as we helped Canadians coast-to-coast celebrate the sesquicentennial. 2017 was also significant in Roots history as we moved from a private company to a performance-driven public company. All that we accomplished during the year is because of our team of incredible professionals. Thanks to the passion and dedication of our more than 2,200 employees, Roots achieved record results in 2017 and laid the foundation for accelerated growth in the years to come. In addition to the unwavering support of our employees, I would also like to thank our Board of Directors and two Roots founders, Michael Budman and Don Green, for their guidance and support as we deliver on our commitments to you, our valued shareholders.

Jim

Jim Gabel
PRESIDENT & CEO

The Banff Bag: Handcrafted in Canada since 1988, our Banff Bag is a Roots classic. The perfect weekender bag, it is designed to be a versatile essential for wherever you're headed next.





While Roots continues to evolve our core values, our unique culture remains as solid today, if not stronger than ever before.

Our Fiscal 2017 results speak to the power of the Roots brand, the creativity of our product and the momentum we are gaining with our operational investments and strategic growth initiatives.

We are a young public company with an iconic brand and a passionate team. We are excited by how our consumers have responded to the investments we have made and are enthusiastic about our further growth potential. With five growth drivers, there are significant opportunities in front of us. We are well-positioned to capitalize on each one, thereby delivering value to our customers and our shareholders.

The Future Feels Great.

ROOTS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Fiscal Year Ended February 3, 2018)

The following Management's Discussion and Analysis ("**MD&A**") dated April 17, 2018 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Roots Corporation (together with its consolidated subsidiaries, referred to herein as "**Roots**", the "**Company**", "**us**", "**we**" or "**our**"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and the fiscal year ended February 3, 2018. This MD&A should be read in conjunction with our audited consolidated financial statements for the fiscal year ended February 3, 2018, including the related notes thereto (the "**Annual Financial Statements**").

Basis of Presentation

Our Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), using the accounting policies described therein. All amounts are presented in thousands of Canadian dollars, unless otherwise indicated.

All references in this MD&A to "**Q4 2017**" are to our fiscal quarter for the 14-week period ended February 3, 2018, and all references to "**Q4 2016**" are to our fiscal quarter for the 13-week period ended January 28, 2017. All references in this MD&A to "**Fiscal 2017**" are to the 53-week fiscal year ended February 3, 2018, and all references to "**Fiscal 2016**" are to the 52-week fiscal year ended January 28, 2017. All references in this MD&A to "**Fiscal 2018**" are to the 52-week fiscal year ending February 2, 2019, and all references to "**Fiscal 2019**" are to the 52-week fiscal year ending February 1, 2020.

Unless otherwise indicated, all comparisons of results for Q4 2017 (14 weeks) are against results for Q4 2016 (13 weeks) and all comparisons of results for Fiscal 2017 (53 weeks) are against results for Fiscal 2016 (52 weeks).

The Annual Financial Statements and this MD&A were reviewed by our Audit Committee and approved by our Board of Directors (the "**Board**") on April 17, 2018.

Certain totals, subtotals, and percentages throughout this MD&A may not reconcile due to rounding. All information in this MD&A referring to per-share amounts, share units or option units are presented as if the Pre-Closing Capital Changes (as defined and discussed under the heading "Share Information – Prior to Completion of the IPO") was implemented at the beginning of the earliest comparable period.

Cautionary Note Regarding Non-IFRS Measures and Industry Metrics

This MD&A makes reference to certain non-IFRS measures including certain metrics specific to the industry in which we operate. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and, therefore, may not 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 are not intended to represent, and should not be considered as alternatives to, net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including, "Adjusted DTC Gross Profit", "Adjusted DTC Gross Margin", "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", and "Adjusted Net Income per Share". This MD&A also refers to "comparable sales growth", a commonly used metric in our industry but that may be calculated differently compared to other companies. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures.

Management also uses non-IFRS measures to exclude the impact of certain expenses and income that management does not believe reflect the Company's underlying operating performance and that make comparisons of underlying financial performance between periods difficult. Management also uses non-IFRS measures to measure our core financial and operating performance for business planning purposes and as a component in the determination of incentive compensation for salaried employees. The Company may exclude additional items, from time to time, if it believes doing so would result in a more effective analysis of our underlying operating performance.

"**Adjusted DTC Gross Profit**" is defined as gross profit in our direct-to-consumer ("**DTC**") segment, adjusted for the impact of certain cost of goods sold that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods difficult.

"**Adjusted DTC Gross Margin**" is defined as Adjusted DTC Gross Profit, divided by sales in our DTC segment.

"**EBITDA**" is defined as net income before interest expense, income taxes expense (recovery) and depreciation and amortization.

"**Adjusted EBITDA**" is defined as EBITDA, adjusted for the impact of certain income and expenses that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods difficult. We believe that Adjusted EBITDA is useful, to both management and investors, in assessing the underlying performance of our ongoing operations and our ability to generate cash flows to fund our cash requirement.

"**Adjusted Net Income**" is defined as net income, adjusted for the impact of certain income and expenses that are non-recurring, infrequent, or unusual in nature, and would make comparisons of underlying financial performance between periods difficult, net of related tax effects. We believe that Adjusted Net Income is useful, to both management and investors, in assessing the underlying performance of our ongoing operations.

"**Adjusted Net Income per Share**" is defined as Adjusted Net Income, divided by the weighted average common shares outstanding during the periods presented. We believe that Adjusted Net Income per Share is useful, to both management and investors, in assessing the underlying performance of our ongoing operations, on a per share basis.

"**comparable sales growth**" is a retail industry metric used to compare the percentage change in sales derived from mature stores and e-commerce, in a certain period, compared to the sales from the same stores and e-commerce, in the same period of the prior year. We believe comparable sales growth helps explain our sales growth in established stores and e-commerce, which may not otherwise be apparent when relying solely on year-over-year sales comparisons. Comparable sales growth is calculated based on sales (net of a provision for returns) from stores that have been opened for at least 52 weeks in DTC segment, including e-commerce sales (net of a provision for returns) in our DTC segment, and excludes sales from stores during periods where the store was undergoing renovation. Comparable sales growth also excludes the impact of foreign currency fluctuations as it is calculated using a U.S. dollar to Canadian dollar exchange rate of 1:1 in all reporting periods. Our comparable sales growth may be calculated differently compared to other companies. Sales during the 53rd week of Fiscal 2017 were compared to sales during the 52nd week of Fiscal 2016.

See "Reconciliation of Non-IFRS Measures" for a reconciliation of certain of the foregoing non-IFRS measures to their most directly comparable measures calculated in accordance with IFRS.

Cautionary Note Regarding Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our business, financial position, results of operations, business strategy, growth plans and strategies, budgets, operations, financial results, taxes, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information.

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

In addition, our assessments of, and targets for, annual sales, Adjusted EBITDA and Adjusted Net Income and certain other measures are considered forward-looking information. See "Financial Outlook" for additional information concerning our strategies, assumptions and market outlook in relation to these assessments.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from these expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the "Risks and

Uncertainties" section of this MD&A and in the "Risk Factors" section of our annual information form dated April 17, 2018 for the fiscal year ended February 3, 2018 (the "**AIF**"). A copy of the AIF can be accessed under our profile on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com and on our website at www.roots.com. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking information is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking information contained 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 information 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 (i) as required under applicable securities laws in Canada and (ii) to provide updates in our annual MD&A for each fiscal year up to and including that in respect of Fiscal 2019 on our growth targets disclosed in our final prospectus (the "**Prospectus**") dated October 18, 2017 in respect of our IPO, including to provide information on our growth targets disclosed in such Prospectus, actual results and a discussion of material variances from our growth targets. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Overview

Established in 1973, Roots is an iconic lifestyle brand with a rich Canadian heritage and a portfolio of premium apparel, leather goods, accessories and footwear. The design of our products is driven by global consumer insights, and supported by our flexible sourcing network, proven distribution footprint and Canadian leather manufacturing facility. Through our omni-channel footprint of 116 corporate retail stores in Canada, three corporate retail stores in the United States, 110 partner-operated stores in Taiwan, 32 partner-operated stores in China and our e-commerce platform, we are able to reach a broad cross-section of global consumers. Our products are worn by young professionals, students, families, athletes and entertainment icons.

On October 14, 2015, Searchlight Capital Partners, L.P. ("**Searchlight**") incorporated Roots Corporation under the laws of Canada and its subsidiary, Roots USA Corporation, under the laws of the State of Delaware. Pursuant to a purchase and sale agreement dated October 21, 2015, Roots and its subsidiaries acquired substantially all of the assets of Roots Canada Ltd., Roots U.S.A., Inc., Roots America L.P., entities controlled by our founders Michael Budman and Don Green (the "**Founders**"), and all of the issued and outstanding shares of Roots International ULC, effective December 1, 2015 (the "**Acquisition**").

Initial Public Offering

On October 25, 2017, we successfully completed our initial public offering (the "**IPO**") of our common shares (the "**Shares**") at a price of $12.00 per Share through a secondary sale of Shares by our principal shareholders. Our principal shareholders sold 16,667,000 Shares under the IPO

for total gross proceeds of $200,004 for the selling shareholders. The Company did not receive any of the proceeds from the IPO.

The Shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the trading symbol "ROOT".

In connection with and immediately prior to closing of the IPO, all outstanding Class A Shares, Class B Shares, options and restricted share units ("**RSUs**") were effectively consolidated on a 0.214193-to-one basis into Shares or securities exercisable for Shares.

Factors Affecting our 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 we discuss below. See also the "Risks and Uncertainties" section of this MD&A and the "Risk Factors" section of our AIF.

Our Brand

Roots is an iconic brand with a rich Canadian heritage and a portfolio of premium apparel, leather goods, accessories and footwear products. Our brand is well known in Canada and Taiwan, with growing customer awareness internationally. Maintaining and growing our brand awareness is critical to our continued success. Any loss of brand appeal from factors such as changing consumer trends and increased competition may adversely affect our business and financial results. To address this, we intend to continue our relentless focus on the customer with insights-driven designs, while leveraging recent operational investments, pursuing continued growth in Canada, expanding our United States and international footprint and deepening our leather and footwear product offerings to continue to attract customers in both existing and new markets.

Growth in our Omni-Channel Business

The success of our business is heavily dependent on our ability to continue to drive strong comparable sales in our DTC segment and grow our omni-channel footprint. This includes renovating and expanding our existing corporate retail stores, optimizing our e-commerce capabilities and selectively expanding our store base in both Canada and the United States. Our ability to successfully execute on our omni-channel strategy is an important driver of our longer-term growth.

Growth in the Business of our International Operating Partners

The success of our business is dependent on the performance of our international operating partner's retail operations. Our ability to continue to recognize wholesale sales of Roots-branded products to our partner and to generate royalty revenue from our partner's retail sales of Roots-branded products depends on our partner continuing to grow its business. Our partner's ability to successfully execute on its omni-channel strategy and our ability to support our partner in this growth will impact the performance of our business. In addition, the success of our business is dependent on our ability to develop successful relationships with other international operating partners and support them in the growth of their retail and online sales of Roots-branded products.

Product Development

We are not defined by one product, season, geography, or demographic. With nearly five decades of product leadership, our product range is diversified across seasons and comprised of apparel, leather goods, accessories and footwear. Serving as the foundation of our distinct identity, many of our enduring icons have been in our product assortment for decades and remain favourites among customers today. Our business will be affected by our ability to continue to develop products that resonate with consumers. In this regard, we have made significant investments in our merchandising team and have established a United Brand Range ("**UBR**") initiative, which is a consumer-focused merchandising strategy focused on building a more simplified and scalable product assortment as well as a more consistent presentation that is coordinated across collections and categories, that we expect will help us to continue supporting the growth of our business. We also continue to introduce additional products to help mitigate the seasonal nature of our business and expand our addressable geographic market.

Foreign Exchange

We generate the majority of our revenues in Canadian dollars, while a significant portion of our cost of goods sold is denominated in U.S. dollars, which exposes us to fluctuations in foreign currency exchange rates. This year, we entered into hedging arrangements to help mitigate the risks associated with fluctuations in the U.S. dollar relative to the Canadian dollar. See "Financial Instruments" for a further discussion of our hedging arrangements.

Seasonality

We experience seasonal fluctuations in the financial results of our retail business, as we generate a meaningful portion of our sales and earnings in our third and fourth fiscal quarters. Our working capital requirements generally increase in the periods preceding these peak periods, and it is not uncommon for our EBITDA to be negative in the first two fiscal quarters. The average portion of our annual sales generated during each quarter of a fiscal year over the last three completed fiscal years is outlined in the following table:

First fiscal quarter	15%
Second fiscal quarter	16%
Third fiscal quarter	28%
Fourth fiscal quarter	41%
Annual Total	100%

Segments

We report our results in two segments: (1) DTC and (2) Partners and Other. We measure each reportable operating segment's performance based on sales and segment gross profit. Our DTC segment comprises sales through our corporate retail stores and e-commerce. Our Partners and Other segment consists primarily of the wholesale of Roots-branded products to our international operating partner and the royalties earned on the retail sales of Roots-branded products by our partner. Our Partners and Other segment also consists of royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

Our DTC and Partners and Other segments contributed 87.1% and 12.9% of our sales, respectively, in Fiscal 2017 (Fiscal 2016 – 86.7% and 13.3% of our sales, respectively).

Summary of Financial Performance

We refer the reader to the sections entitled "Components of our Results of Operations and Trends Affecting our Business" and "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics" in this MD&A for the definition of the items discussed below and, when applicable, to the section entitled "Reconciliation of Non-IFRS Measures" for reconciliations of non-IFRS measures with the most directly comparable IFRS measure.

The following table summarizes our results of operations for the periods indicated:

CAD $000s (except per share data)	**Q4 2017**	**Q4 2016**	**Fiscal 2017**	**Fiscal 2016**	**Fiscal 2015[1]**
Statement of Net Income Data:					
Sales	130,021	111,172	326,057	281,886	61,401
Gross profit	75,766	63,745	181,998	147,153	22,605
Gross margin	58.3%	57.3%	55.8%	52.2%	36.8%
Selling, general and administrative expenses	45,878	37,883	151,867	129,490	25,737
Income (loss) before interest expense and income taxes expense (recovery)	29,888	25,862	30,131	17,663	(3,132)
Net income (loss)	20,861	17,194	17,501	8,185	(3,478)
Basic earnings per share	$0.50	$0.41	$0.42	$0.19	$(0.02)
Diluted earnings (loss) per share	$0.49	$0.41	$0.41	$0.19	$(0.02)
Non-IFRS Measures and Other Performance Measures:					
Corporate stores, end of period	119	117	119	117	114
Comparable sales growth[2]	15.1%	9.3%	12.1%	8.3%	16.8%
Adjusted DTC Gross Profit[2]	72,775	60,303	168,636	139,993	31,115
Adjusted DTC Gross Margin[2]	60.7%	59.2%	59.4%	57.3%	55.8%
Adjusted EBITDA[2]	36,706	31,602	52,634	41,578	13,835
Adjusted Net Income[2]	24,646	20,203	29,137	21,477	8,438
Adjusted Net Income per Share[2]	$0.59	$0.48	$0.69	$0.51	$0.20

Note:

(1) Fiscal 2015 is attributable to the period from October 14, 2015 (date of incorporation) to January 30, 2016. While the financial statements presented are for the period from October 14, 2015 to January 30, 2016, Roots had no financial activity prior to December 1, 2015 (date of the Acquisition).

(2) Comparable sales growth, Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Share are non-IFRS measures. See "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics" for a description of these measures.

Selected Financial Results for Q4 2017 Compared to Q4 2016

- Total sales increased by $18,849, or 17.0%, to $130,021 in Q4 2017, from $111,172 in Q4 2016.
  - DTC sales increased by $17,941, or 17.6%, compared to Q4 2016.
  - Partners and Other sales increased by $908, or 9.8%, in Q4 2017, compared to Q4 2016.
- Comparable sales growth[1] was 15.1% for Q4 2017.
- Gross profit increased by $12,021, or 18.9%, to $75,766 in Q4 2017, from $63,745 in Q4 2016.
  - DTC gross profit increased by $11,400, or 18.9%, to $71,703 in Q4 2017, and as a percentage of sales ("**gross margin**") increased to 59.9% in Q4 2017, from 59.2% in Q4 2016.

- Adjusted DTC Gross Profit[1] increased by $12,472, or 20.7%, to $72,775 in Q4 2017, and Adjusted DTC Gross Margin[1] increased to 60.7%, from 59.2% in Q4 2016.

- Selling, general, and administrative expenses ("**SG&A expenses**") increased by $7,995, or 21.1%, to $45,878 in Q4 2017, from $37,883 in Q4 2016.

- Adjusted EBITDA[1] increased by $5,104, or 16.2%, to $36,706 in Q4 2017, from $31,602 in Q4 2016.

- Net income increased by $3,667, or 21.3%, to $20,861 in Q4 2017, from $17,194 in Q4 2016.

- Adjusted Net Income[1] increased by $4,443, or 22.0%, to $24,646 in Q4 2017, from $20,203 in Q4 2016.

- Basic earnings per Share was $0.50 in Q4 2017, up 21.9% from $0.41 in Q4 2016.

- Adjusted Net Income per Share[1] was $0.59 in Q4 2017, up 22.9% from $0.48 in Q4 2016.

Selected Financial Results for Fiscal 2017 Compared to Fiscal 2016

- Total sales increased by $44,171, or 15.7%, to $326,057 in Fiscal 2017, from $281,886 in Fiscal 2016.
  - DTC sales increased by $39,778, or 16.3%, compared to Fiscal 2016.
  - Partners and Other sales increased by $4,393, or 11.7%, compared to Fiscal 2016.

- Comparable sales growth[1] was 12.1% for Fiscal 2017.

- Gross profit increased by $34,845, or 23.7%, to $181,998 in Fiscal 2017, from $147,153 in Fiscal 2016.
  - DTC gross profit increased by $33,346, or 24.8% to $167,546, and gross margin increased to 59.0% in Fiscal 2017, from 57.3% in Fiscal 2016, excluding $5,775 from a fair value step-up of inventory from the Acquisition in Fiscal 2016 (Fiscal 2017: $nil).
  - Adjusted DTC Gross Profit[1] increased by $28,643, or 20.5%, to $168,636 in Fiscal 2017, and Adjusted DTC Gross Margin[1] increased to 59.4% in Fiscal 2017, from 57.3% in Fiscal 2016.

- SG&A expenses increased by $22,377, or 17.3%, to $151,867 in Fiscal 2017, from $129,490 in Fiscal 2016.

- Adjusted EBITDA[1] increased by $11,056, or 26.6%, to $52,634 in Fiscal 2017, from $41,578 in Fiscal 2016. Adjusted EBITDA was 16.1% of sales in Fiscal 2017, increasing from 14.7% of sales in Fiscal 2016.

- Net income increased by $9,316, or 113.8%, to $17,501 in Fiscal 2017, from $8,185 in Fiscal 2016.

- Adjusted Net Income[1] increased by $7,660, or 35.7%, to $29,137 in Fiscal 2017, from $21,477 in Fiscal 2016. Adjusted Net Income was 8.9% of sales in Fiscal 2017, increasing from 7.6% of sales in Fiscal 2016.

- Basic earnings per Share was $0.42 in Fiscal 2017, up 121% from $0.19 in Fiscal 2016.

- Adjusted Net Income per Share[1] was $0.69 in Fiscal 2017, up 35.3% from $0.51 in Fiscal 2016.

Key Operational Developments

Retail stores

We continue to execute on our strategy to grow our store network and optimize our existing retail stores. During Fiscal 2017, we opened eight new stores, relocated four stores, and completed a major renovation on one of our existing stores. In particular, during Q4 2017 we:

- relocated and expanded our store at White Oaks Mall in London, Ontario on November 1, 2017;

- opened our second enhanced experience store, which includes a selection of customizable leather bags and awards jackets, as well as a heritage area, customer lounge and many other features that add to the in-store shopping experience, located at Pacific Centre Mall in Vancouver, British Columbia on November 8, 2017;

- opened a new store at McAllister Place in Saint John, New Brunswick on February 1, 2018; and

- closed three stores to better optimize our real estate portfolio.

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

	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Number of stores, beginning of period	120	116	117	114
New stores	2	2	8	5
Closed stores	3	1	6	2
Number of stores, end of period	**119**	**117**	**119**	**117**
Stores renovated or relocated	1	1	5	8

E-commerce site

In Fiscal 2017, we rolled out our new storefront e-commerce site, introducing various new features and functionality through scheduled phased releases. During the first phases, some of the new features and functionality we introduced included: a new visual design, improved mobile functionality and consumer-facing enhancements that simplify the online ordering process. We completed our third phase rollout in March 2018, which included increased personalization capabilities. We expect to complete our final phase by mid-Fiscal 2018.

Note:

(1) Comparable sales growth, Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Share are non-IFRS measures. See "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics" for a description of these measures.

International Partnerships

We continue to execute on our strategy to grow internationally. During Q4 2017, our international partner opened two new partner-operated stores in Taiwan and three new partner-operated stores in China. In total, we opened 13 net new partner-operated stores in Asia (Taiwan and China) during Fiscal 2017.

Merchandising

We continued to execute against our broader merchandising strategy of bringing better products to our customers, increasing productivity, improving buying and planning as well as bringing the right products to the right stores. Our success on all of these fronts in the quarter are reflected in our top line improvements, expanded gross margins and increased profitability.

Specifically, through our UBR initiative, we continued to build a more simplified and scalable product assortment and consistent presentation across all channels. We reduced unproductive SKUs in categories such as accessories and kids/toddler/baby, notably, resulting in year-over-year sales and profitability gains. We also added SKUs in dresses, for example. As a result, we realized accelerated sales and profitability growth in this category as well. Overall, we achieved a 27% reduction in SKU count in the quarter compared to Q4 Fiscal 2016. We generated increased efficiencies with the consolidation of our supplier base, reducing the number of ongoing suppliers by over 30% since Fiscal 2016, and we decreased our sourcing costs by buying deeper in our successful SKUs.

Components of our Results of Operations and Trends Affecting our Business

In assessing our results of operations and trends affecting our business, we consider a variety of financial and operating measures that affect our operating results.

Sales

Sales in our DTC segment include sales through our corporate retail stores in North America and through our e-commerce operations. Sales to customers through our corporate retail stores are recognized at the time of purchase, net of a provision for returns. E-commerce sales are recognized at the time of delivery, net of a provision for returns. The provision for returns is estimated based on the last 12 months' return rate for retail stores and e-commerce sales, respectively.

Sales in our Partners and Other segment consist primarily of wholesale sales to our international partner and other corporate customers, and royalty revenue earned from the retail sale of Roots-branded products by our international partner and other third-party licensees. Wholesale sales from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the customer which, depending on the specific contractual terms of each customer, is either at the time of shipment or receipt. Contractually, our international partner and wholesale partners are unable to return goods purchased from us. Royalty sales are earned and recognized on an accrual basis in accordance with the various contractual agreements, based on the financial results as reported by our international partner and other third-party licensees, and when collectability is reasonably determined.

Gross Profit

Gross profit is our sales less cost of goods sold. Cost of goods sold includes the cost of purchasing our products from manufacturers, including direct purchase costs, freight costs, and duty and non-refundable taxes. For select leather and footwear products manufactured by us in-house, cost of goods sold includes the cost of manufacturing our products, including raw materials, direct labour and overhead, plus freight costs. Cost of goods sold also includes variable distribution centre costs incurred to prepare our inventory for sale. Gross margin measures our gross profit as a percentage of sales.

The primary driver of our cost of goods sold is the cost of purchased products from our manufacturers, which is predominantly sourced in U.S. dollars and Canadian dollars. In Fiscal 2017, we implemented a hedging program to manage our foreign currency risk related to U.S. dollar inventory purchases. See "Financial Instruments".

Selling, General and Administrative Expenses

SG&A expenses consist of selling costs to market and deliver our products to our consumers through our DTC segment, depreciation of store and e-commerce assets, and costs incurred to support the relationships with our retail partners and distributors through our Partners and Other segment. SG&A expenses also include our marketing and brand investment activities, and the corporate infrastructure required to support our ongoing business. In addition, in connection with the IPO, we incurred transaction costs and, going forward, we anticipate an increase to accounting, legal and professional fees associated with operating as a public company that will be reflected in our SG&A expenses.

Selling costs as a percentage of sales is usually higher in the lower-volume first and second quarters of a fiscal year, and lower in the higher-volume third and fourth quarters of a fiscal year because a portion of these costs are relatively fixed. We expect our selling costs to increase as we continue to open new stores, grow our e-commerce business and increase our marketing and brand investment activities.

General and administrative expenses represent costs incurred in our corporate offices, primarily related to personnel costs, including salaries, variable-incentive compensation, benefits, share-based compensation, and marketing costs. It also includes depreciation and amortization expenses for all office support assets and intangible assets.

We have invested heavily to support the growing volume and complexity of our business and anticipate continuing to do so in the future. As we continue to grow, we anticipate that we will be able to scale our investments and leverage our fixed costs.

Foreign exchange gains and losses, excluding changes in the fair value of foreign currency forward contracts (see "Financial Instruments") are recorded in SG&A expenses and comprise translation of monetary assets and liabilities denominated in currencies other than the functional currency of the entity.

Interest Expense

Interest expense relates to our Credit Facilities. See "Indebtedness".

Income Taxes

We are subject to income taxes in the jurisdictions in which we operate and, consequently, income taxes expense or recovery is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. The primary regions that determine the effective tax rate are Canada and the United States. Over the long-term, we expect our annual effective income tax rate to be, on average, approximately 27%, subject to changes to income tax rates and legislation in the jurisdictions in which we operate.

Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below for Fiscal 2017 and Fiscal 2016 has been derived from our Annual Financial Statements. The selected consolidated financial information set out below for Q4 2017 and Q4 2016 is unaudited.

CAD $000s	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Sales	**130,021**	**111,172**	**326,057**	**281,886**
Cost of goods sold	54,255	47,427	144,059	134,733
Gross Profit	**75,766**	**63,745**	**181,998**	**147,153**
Selling, general and administrative expenses	45,878	37,883	151,867	129,490
Income before interest expense and income taxes expense	**29,888**	**25,862**	**30,131**	**17,663**
Interest expense	1,197	1,597	5,728	6,112
Income before taxes	**28,691**	**24,265**	**24,403**	**11,551**
Income taxes expense	7,830	7,071	6,902	3,366
Net income	**20,861**	**17,194**	**17,501**	**8,185**
Basic earnings per Share(1)	$0.50	$0.41	$0.42	$0.19

The following table provides selected financial information for the periods indicated:

Consolidated Statement of Financial Position Data:

CAD $000s (except per Share amounts)	As at February 3, 2018	As at January 28, 2017	As at January 30, 2016
Current assets	$49,216	$64,458	$54,403
Non-current assets	293,635	292,985	289,205
Current liabilities	35,759	31,374	27,800
Non-current liabilities	108,119	124,885	123,533
Distributions declared per Share(1)	$0.48	-	-

Note:

(1) Calculated based on the number of outstanding Shares as if the Pre-Closing Capital Changes were implemented at the start of the period. At the time of distribution, prior to the Pre-Closing Capital Changes, the equivalent distributions per Share was $0.10.

Results of Operations

Analysis of Results for Q4 2017 to Q4 2016 and Fiscal 2017 to Fiscal 2016

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

Sales

The following table presents our sales by segment for each of the periods indicated:

CAD $000s	Q4 2017	Q4 2016	% Change	Fiscal 2017	Fiscal 2016	% Change
DTC	119,805	101,864	17.6%	284,131	244,353	16.3%
Partners and Other	10,216	9,308	9.8%	41,926	37,533	11.7%
Total Sales	**130,021**	**111,172**	**17.0%**	**326,057**	**281,886**	**15.7%**

Total sales were $130,021 in Q4 2017 as compared to $111,172 in Q4 2016, representing an increase of $18,849, or 17.0%.

DTC sales increased $17,941, or 17.6%, in Q4 2017 as compared to Q4 2016. The year-over-year growth in DTC sales was primarily driven by comparable sales growth of 15.1%, the opening of two net new stores since Q4 2016 and the benefit of the 53rd week of Fiscal 2017, which accounted for $3,074 in DTC sales.

Sales in the Partners and Other segment increased by $908, or 9.8%, in Q4 2017 as compared to Q4 2016, primarily driven by the opening of 13 net new stores in Asia (Taiwan and China) by our international partner since Q4 2016. The growth in sales in the Partners and Other segment, largely denominated in U.S. dollars, was partially offset by the weaker U.S. dollar as compared to the Canadian dollar in Q4 2017 (average effective exchange rate of 1.26) compared to Q4 2016 (average effective exchange rate of 1.33). If the exchange rate had been 1.33 during the period, Q4 2017 sales in the Partners and Other segment would have increased by $1,354, or 14.5%, as compared to Q4 2016.

Total sales were $326,057 in Fiscal 2017 as compared to $281,886 in Fiscal 2016, representing an increase of $44,171, or 15.7%.

Fiscal 2017 sales in the DTC segment increased by $39,778, or 16.3%, as compared to Fiscal 2016. The year-over-year growth in DTC sales was primarily driven by comparable sales growth of 12.1%, the opening of two net new stores and the benefit of the 53rd week of Fiscal 2017.

Sales in the Partners and Other segment increased by $4,393, or 11.7%, during Fiscal 2017 as compared to Fiscal 2016, primarily driven by the opening of 13 net new stores in Asia (Taiwan and China) by our international partner during Fiscal 2017. The growth in sales in the Partners and Other segment, largely denominated in U.S. dollars, was partially offset by the weaker U.S. dollar as compared to the Canadian dollar during Fiscal 2017 (average effective exchange rate of 1.28) compared to Fiscal 2016 (average effective exchange rate of 1.32). If the exchange rate had been 1.32 during the period, Fiscal 2017 sales in the Partners and Other segment would have increased by $5,308, or 14.1%, as compared to Fiscal 2016.

Gross Profit

The following tables presents our gross profit and gross margin by segment for each of the periods indicated:

CAD $000s	Q4 2017	Q4 2016	% Change	Fiscal 2017	Fiscal 2016	% Change
DTC	71,703	60,303	18.9%	167,564	134,218	24.8%
Partners and Other	4,063	3,442	18.0%	14,434	12,935	11.6%
Total Gross Profit	**75,766**	**63,745**	**18.9%**	**181,998**	**147,153**	**23.7%**

Gross profit as a percentage of sales	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
DTC	59.9%	59.2%	59.0%	54.9%
Partners and Other	39.8%	37.0%	34.4%	34.5%
Total Gross Margin	**58.3%**	**57.3%**	**55.8%**	**52.2%**

Gross profit was $75,766 in Q4 2017, as compared to $63,745 in Q4 2016, representing an increase of $12,021, or 18.9%.

Gross profit in the DTC segment increased $11,400, or 18.9%, in Q4 2017 as compared to Q4 2016. The increase in gross profit in the DTC segment was primarily driven by the sales growth in Q4 2017, a higher gross margin and the benefit of the 53rd week. Gross margin was 59.9% in Q4 2017, up compared to 59.2% in Q4 2016, primarily as a result of product costing, largely as a result of our UBR initiative, favourable foreign exchange rates on goods purchased in U.S. dollars and a more favourable product mix of higher margin items, partially offset by a $1,072 inventory write down related to certain existing footwear raw materials that will be edited out as part of our upcoming footwear re-launch expected in the third quarter of 2018.

Gross profit in the Partners and Other segment increased by 18.0%, or $621, in Q4 2017 as compared to Q4 2016. The growth in gross profit in the Partners and Other segment was primarily driven by an increase in sales to our international operating partner**.**

Gross profit was $181,998 in Fiscal 2017 as compared to $147,153 in Fiscal 2016, representing an increase of $34,845, or 23.7%.

Gross profit in the DTC segment increased by $33,346, or 24.8%, during Fiscal 2017 as compared to Fiscal 2016. Excluding $5,775 from a fair value step-up of inventory from the Acquisition in Fiscal 2016 (Fiscal 2017: $nil), gross profit in the DTC segment increased $27,571, or 19.7%, during Fiscal 2017 as compared to Fiscal 2016. Excluding the fair value step-up of inventory from the Acquisition, the increase in gross profit in the DTC segment was primarily driven by sales growth during Fiscal 2017, gross margin of 59.0% in Fiscal 2017 as compared to 57.3% in Fiscal 2016 and the impact of the 53rd week. The increase in gross margin was primarily driven by improved product costing, largely as a result of our UBR initiative, favourable foreign exchange rates on goods purchased in U.S. dollars and a more favourable product mix of higher margin items, partially offset by a $1,072 inventory write down related to certain existing footwear raw materials that will be edited out as part of our upcoming footwear re-launch expected in the third quarter of 2018.

Gross profit in the Partners and Other segment increased by or $1,499, or 11.6%, during Fiscal 2017 as compared to Fiscal 2016, primarily driven by growth in sales to our international operating partner.

Selling, General and Administrative Expenses

SG&A expenses were $45,878 in Q4 2017 as compared to $37,883 in Q4 2016, representing an increase of $7,995, or 21.1%. This increase primarily reflects selling costs increasing by $4,000, or 14.6%, in Q4 2017 as compared to Q4 2016, driven by growth in sales, a rise in occupancy costs, higher personnel costs relating to net new store openings, and greater shipping costs from the growth of e-commerce sales. General and administrative costs increased by $3,995, or 38.0%, in Q4 2017 as compared to Q4 2016. Excluding $230 of costs incurred in relation to the IPO during Q4 2017, general and administrative costs increased by $3,765, or 35.9%, primarily driven by higher advertising investments to support branding and increased head office headcount. The increase in SG&A expenses was also driven by the 53rd week in Fiscal 2017.

SG&A expenses were $151,867 during Fiscal 2017 as compared to $129,490 in Fiscal 2016, representing an increase of $22,377, or 17.3%. This increase primarily reflects selling costs increasing by $9,377, or 10.2%, in Fiscal 2017 as compared to Fiscal 2016, driven by the growth in sales, a rise in occupancy costs, higher personnel costs relating to net new store openings, and greater shipping costs from the growth of e-commerce sales. General and administrative costs increased by $13,000, or 34.3%, in Fiscal 2017 as compared to Fiscal 2016. Excluding $3,733 of costs incurred in relation to the IPO in Fiscal 2017, general and administrative costs increased by $9,267, or 24.5%, driven by higher advertising investments to support branding and increased head office headcount. The increase in SG&A expenses was also driven by the 53rd week in Fiscal 2017.

Interest Expense

Interest expense was $1,197 in Q4 2017 as compared to $1,597 in Q4 2016, representing a decrease of $400, or 25.0%. During Fiscal 2017, interest expense was $5,728 as compared to $6,112 in Fiscal 2016, representing a decrease of $384, or 6.3%. The decrease in interest expense related primarily to lower debt from repayment of the Term Credit Facility, and lower effective interest rates charged on the Credit Facilities as a result of the amendments made to the Credit Agreement and lowering our Trailing Leverage Multiple since Fiscal 2016. See “Indebtedness”.

Income Taxes Expense

Income taxes expense was $7,830 in Q4 2017 as compared to $7,071 in Q4 2016, representing an increase of $759, or 10.7%. The effective tax rate for Q4 2017 was 27.3% as compared to 29.1% in Q4 2016. During Fiscal 2017, income taxes expense was $6,902 as compared to $3,366 in Fiscal 2016, representing an increase of $3,536, or 105.1%. The effective income tax rate during Fiscal 2017 was 28.3% as compared to 29.1% in Fiscal 2016. The decrease in the effective income tax rate is primarily attributable to fewer non-deductible expenses incurred in Q4 2017 and Fiscal 2017, as compared to Q4 2016 and Fiscal 2016, respectively.

Net Income

Net income was $20,861 in Q4 2017 as compared to $17,194 in Q4 2016, representing an increase of $3,667, or 21.3%. During Fiscal 2017, net income was $17,501 as compared to $8,185 in Fiscal 2016, representing an increase of $9,316, or 113.8%. The increase in net income results from the factors described above.

Quarterly Financial Information

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

CAD $000s (except per Share data) (Unaudited)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales	**130,021**	**89,690**	**58,115**	**48,231**	**111,172**	**79,384**	**46,588**	**44,742**
Net Income (Loss)	**20,861**	**4,979**	**(3,226)**	**(5,113)**	**17,194**	**5,903**	**(4,962)**	**(9,950)**
Net Earnings (Loss) per Share:								
Basic earnings per Share[(1)]	$ 0.50	$ 0.12	$ (0.08)	$ (0.12)	$ 0.41	$ 0.14	$ (0.12)	$ (0.24)
Diluted earnings per Share[(1)]	$ 0.49	$ 0.12	$ (0.08)	$ (0.12)	$ 0.41	$ 0.14	$ (0.12)	$ (0.24)
Other Performance Measures								
Comparable sales growth	15.1%	10.1%	16.3%	3.3%	9.3%	2.7%	11.9%	13.3%
Corporate stores, end of period	119	120	120	118	117	116	114	114

Note:

(1) Basic and diluted earnings per Share are presented as if the Pre-Closing Capital Changes had been effected during all periods presented. See "Share Information – Prior to Completion of IPO".

Summary of Non-IFRS Measures

The table below illustrates our Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Share for the periods presented:

CAD $000s (except per Share data)	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Adjusted DTC Gross Profit	72,775	60,303	168,636	139,993
Adjusted DTC Gross Margin	60.7%	59.2%	59.4%	57.3%
EBITDA	32,731	28,580	41,017	27,466
Adjusted EBITDA	36,706	31,602	52,634	41,578
Adjusted Net Income	24,646	20,203	29,137	21,477
Adjusted Net Income per Share[(1)]	$0.59	$0.48	$0.69	$0.51

Note:

(1) Adjusted Net Income per Share is presented as if the Pre-Closing Capital Changes was effected in all periods presented. See "Share Information – Prior to Completion of IPO".

See "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics".

Reconciliation of Non-IFRS Measures

The tables below provide a reconciliation of DTC gross profit to Adjusted DTC Gross Profit, and net income to EBITDA, Adjusted EBITDA, and Adjusted Net Income for the periods presented:

CAD $000s	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
DTC Gross profit	**71,703**	**60,303**	**167,564**	**134,218**
Add the impact of:				
COGS: Purchase accounting adjustments (a)	-	-	-	5,775
COGS: Write-off of footwear raw materials (b)	1,072	-	1,072	-
DTC Adjusted Gross Profit	**72,775**	**60,303**	**168,636**	**139,993**

CAD $000s	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Net income	**20,861**	**17,194**	**17,501**	**8,185**
Add the impact of:				
Interest expense	1,197	1,597	5,728	6,112
Income taxes expense	7,830	7,071	6,902	3,366
Depreciation and amortization	2,843	2,718	10,886	9,803
EBITDA	**32,731**	**28,580**	**41,017**	**27,466**
Add the impact of:				
COGS/SG&A: Purchase accounting adjustments (a)	206	358	907	7,096
COGS: Write-off of footwear raw materials (b)	1,072	-	1,072	-
SG&A: IPO transaction costs (c)	230	-	3,733	-
SG&A: Shareholder fees and related costs (d)	6	695	1,223	1,775
SG&A: Acquisition transaction costs (e)	108	10	137	315
SG&A: Fixed asset impairments (f)	1,281	987	1,281	987
SG&A: Legacy stock option expense (g)	443	127	1,026	474
SG&A: Other non-recurring items (h)	373	453	1,391	1,843
SG&A: Non-cash rent adjustments (i)	256	392	847	1,622
Adjusted EBITDA	**36,706**	**31,602**	**52,634**	**41,578**

CAD $000s	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Net income	**20,861**	**17,194**	**17,501**	**8,185**
Add the impact of:				
COGS/SG&A: Purchase accounting adjustments (a)	206	358	907	7,096
COGS: Write-off of footwear raw materials (b)	1,072	-	1,072	-
SG&A: IPO transaction costs (c)	230	-	3,733	-
SG&A: Shareholder fees and related costs (d)	6	695	1,223	1,775
SG&A: Acquisition transaction costs (e)	108	10	137	315
SG&A: Fixed asset impairments (f)	1,281	987	1,281	987
SG&A: Stock option expense (g)	443	127	1,026	474
SG&A: Other non-recurring items (h)	373	453	1,391	1,843
SG&A: Non-cash rent adjustments (i)	256	392	847	1,622
SG&A: Amortization of intangible assets acquired by Searchlight (j)	1,024	1,033	3,871	3,808
Total adjustments	4,999	4,055	15,488	17,920
Tax effect of adjustments	(1,214)	(1,046)	(3,852)	(4,628)
Adjusted Net Income	**24,646**	**20,203**	**29,137**	**21,477**

Notes:

(a) In connection with the Acquisition, we recognized acquired inventory at fair value in accordance with IFRS 3, *business combinations* ("**IFRS 3**"), which included a mark-up for profit. Recording inventory at fair value in purchase accounting had the effect of increasing inventory and therefore will increase cost of goods sold in subsequent periods as compared to the amounts we would have recognized if inventory was sold through at cost. This inventory was sold in the period from October 14, 2015 to January 30, 2016, and Fiscal 2016, and has impacted net income and EBITDA during those periods. As a result of the Acquisition, we also recognized an intangible asset for lease arrangements in the amount of $6,310, which is amortized over the life of the leases and included in SG&A expenses. In our view, these costs do not reflect the underlying profitability of the business and would reduce the ability to compare such underlying results to historical periods prior to the Acquisition.

(b) As part of our upcoming footwear re-launch expected in the third quarter of 2018, we are shifting our in-house production to a leading manufacturer of quality footwear products worldwide. As a result, we incurred a one-time write-off against raw material inventory related to certain existing footwear styles that will be edited out of our line as part of the upcoming footwear re-launch. Management is of the view that this write-off is infrequent in nature, and does not reflect the underlying profitability of the business and the inclusion would, therefore, reduce the ability to compare such underlying results to historical periods.

(c) In connection with the IPO, we incurred expenses related to professional fees, legal, consulting, accounting, and travel that would otherwise not have been incurred and are not recurring.

(d) Represents the amount paid pursuant to the management agreement with Searchlight and consulting agreements with the Founders and certain of their family members for ongoing consulting and other services. Subsequent to the IPO, the management agreement and Founder consulting services were terminated, and neither Searchlight nor the Founders and their family members will receive these fees from us in relation thereto going forward. See “Related Party Transactions”.

(e) In connection with the Acquisition, we incurred expenses related to professional fees, legal, consulting, and accounting that would otherwise not have been incurred and are not recurring.

(f) Represents an impairment charge taken against certain leasehold improvements for stores where the forecast cash flows were deemed to be below the carrying value.

(g) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan and Legacy Employee Option Plan. The options granted under the Legacy Equity Incentive Plan and the Legacy Employee Option Plan were one-time events as part of putting in place and incentivizing our management team following the Acquisition. No additional options will be granted under the Legacy Equity Incentive Plan and the Legacy Employee Option Plan following the IPO.

(h) Predominately represents expenses incurred in respect of the following matters: (i) one-time recruitment costs incurred as part of the Company’s initial efforts to put in place its current senior management team, namely the Chief Executive Officer (“**CEO**”), the Chief Financial Officer (“**CFO**”) and the Chief Merchandising Officer; (ii) consulting costs in respect of the Company’s UBR initiative relating to a non-recurring project to focus the Roots brand and streamline our product offering; and (iii) consulting fees in respect of the Company’s distribution center capacity and expansion study relating to a project that began in late-2016 and is expected to be completed by 2019. These costs have been identified as one-time costs incurred in conjunction with the Acquisition and the implementation of a new senior management team. Management has determined that each of the above projects are non-recurring or infrequent in nature and, accordingly, such matters do not reflect the underlying profitability of the business and their inclusion would, therefore, reduce the ability to compare such underlying results to historical periods.

(i) Under IFRS, we are required to recognize rent expense on a straight-line basis over the life of the lease. This adjustment removes the portion of the straight-line rent adjustment that is non-cash expense in the applicable financial period.

(j) As a result of the Acquisition, intangibles relating to customer relationships of $7,766 with a useful life of 10 years and licensing arrangements of $25,910 with useful lives ranging from four to 13 years were recognized in accordance with IFRS 3. The amortization expense resulting from the recognition of these intangible assets are non-cash in nature and are a direct result of the Acquisition. If the Acquisition had not occurred, such intangibles would not have been recognized and, consequently, the associated expenses would not have been incurred. Management is of the view that these costs do not reflect the underlying profitability of the business and would, therefore, reduce the ability to compare such underlying results to historical periods prior to the Acquisition.

Financial Condition, Liquidity and Capital Resources

Overview

We principally use our funds for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities, will be sufficient to meet our future operating expenses, capital expenditures and future debt service requirements. In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our future growth strategies. However, 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 “Risks and Uncertainties” and “Factors Affecting our Performance” for additional information.

Cash Flows

The following table presents our cash flows for each of the periods presented:

CAD$000s	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Net cash generated from operating activities	43,790	40,926	29,652	30,068
Net cash generated used in financing activities	(33,577)	(12,388)	(40,856)	(3,913)
Net cash used in investing activities	(3,842)	(4,390)	(12,244)	(12,049)
Change in cash and bank indebtedness	**6,371**	**24,148**	**(23,448)**	**14,106**

Analysis of Cash Flows for Q4 2017 and Fiscal 2017 compared to Q4 2016 and Fiscal 2016

Cash Flows from Operating Activities

For Q4 2017 and Fiscal 2017, cash flows from operating activities totalled $43,790 and $29,652, respectively, compared to $40,926 and $30,068 in Q4 2016 and Fiscal 2016, respectively. The increase in cash flows from operating activities in Q4 2017, compared to Q4 2016, is attributable to higher income levels, partially offset by greater investments in working capital and taxes paid. The decrease in cash flows from operating activities in Fiscal 2017, compared to Fiscal 2016, is attributable to greater investments in working capital and taxes paid, partially offset by higher income levels.

Cash Flows used in Financing Activities

For Q4 2017 and Fiscal 2017, cash flows used in financing activities amounted to $33,577 and $40,856, respectively, compared to $12,388 and $3,913 in Q4 2016 and Fiscal 2016, respectively. This change is driven by the one-time shareholder distribution in the amount of $20,000 in the second quarter of 2017, scheduled repayments on our Term Credit Facility of $9,654 (Fiscal 2016 - $4,163), timing of drawings from our Revolving Credit Facility and subsequent repayments within each period, and voluntary early repayments on our Term Credit Facility in the amount of $10,000 in the fourth quarter of 2017 (Fiscal 2016 - $nil).

Cash Flows used in Investing Activities

For Q4 2017 and Fiscal 2017, cash flows used in investing activities amounted to $3,842 and $12,244, respectively, compared to $4,390 and $12,049 in Q4 2016 and Fiscal 2016, respectively. The changes reflect our continued investment in our DTC segment, primarily through new store openings and renovations and relocations of existing stores.

Indebtedness

On December 1, 2015, the Company entered into a secured credit agreement (the “**Credit Agreement**”) with a syndicate of lenders to obtain an initial term loan (the “**Term Credit Facility**”) for an aggregate principal amount not exceeding $111,000 and a revolving credit loan (the “**Revolving Credit Facility**”) not exceeding $25,000, less the aggregate swing line loan of $5,000 (together, the “**Credit Facilities**”).

On April 19, 2017, the Company amended the Credit Agreement to increase the availability under the Revolving Credit Facility to an amount not exceeding $50,000, less the aggregate swing line loan of $10,000.

On September 6, 2017, the Company further amended and extended the Credit Facilities. The Credit Facilities, as amended, are comprised of (i) the Revolving Credit Facility in the amount of $50,000 and (ii) an approximately $100,000 Term Credit Facility, both bearing interest in accordance with the Trailing Leverage Multiple and maturing on September 6, 2022.

The Credit Facilities include an accordion feature in the amount of $25,000 and bear interest according to the type of borrowing advanced, which may be based on a reference rate of the U.S. base rate or the Canadian prime rate, plus a margin that ranges from 100 to 225 basis points (bps) or the LIBOR rate or bankers' acceptances rate, plus a margin that ranges from 200 to 325 bps. The applicable margins are derived from our senior leverage ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 100 bps at less than 2.0x senior leverage ratio, to 225 bps at greater than or equal to 3.5x senior leverage ratio; and (ii) where the LIBOR rate or bankers' acceptances rate is used, the margins range from 200 bps at less than 2.0x senior leverage ratio, to 325 bps at greater than or equal to 3.5x senior leverage ratio (the "**Trailing Leverage Multiple**").

The Company has financial and non-financial covenants under the Credit Facilities. The key financial covenants include covenants for consolidated debt to Adjusted EBITDA ratio, total debt to Adjusted EBITDA ratio, and fixed charge coverage ratio. As at the end of Fiscal 2017, the Company was in compliance with such covenants.

The following table sets out the mandatory repayment of the Credit Facilities over the next five years:

CAD $000s	Term Credit Facility	Revolving Credit Facility
Within 1 year	4,984	-
Within 1 - 2 years	4,984	-
Within 2 - 3 years	4,984	-
Within 3 - 4 years	4,984	-
Within 4 - 5 years	67,247	-
Total	**87,183**	**-**

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our significant contractual obligations and other obligations as well as our off-balance sheet arrangements as at February 3, 2018:

CAD$000s	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Thereafter	Total
Term Credit Facility (1)	4,984	4,984	4,984	4,984	67,247	-	87,183
Interest commitments relating to long-term debt (2)	3,088	2,908	2,728	2,547	1,401	-	12,672
Net settlement of foreign currency forward contracts (3)	1,241	-	-	-	-	-	1,241
Operating leases (4)	24,312	23,866	21,231	18,299	16,094	52,470	156,272
Finance leases	338	338	153	25	9	-	863
Inventory purchase commitments (5)	63,798	-	-	-	-	-	63,798
Total commitments and obligations	**97,761**	**32,096**	**29,095**	**25,856**	**84,751**	**52,470**	**322,029**

Notes:

(1) The repayment of the Term Credit Facility may occur prior to the mandatory repayment time if certain events occur and/or at the discretion of the Company.

(2) Based on the interest rate in effect as at February 3, 2018, and assuming no prepayments are made to the Term Credit Facility.

(3) Obligation arising from the settlement of outstanding foreign currency forward contracts based on the U.S. dollar-Canadian dollar foreign exchange rate on February 3, 2018 of 1.24.

(4) Operating leases for certain of our premises include renewal options, rent escalation clauses, variable rent, and rent-free periods. The operating lease commitment reflects minimum annual commitments for our operating leases on those premises, excluding renewal options and variable rent.

(5) Inventory purchase commitments reflect the cost of outstanding inventory purchases ordered from our vendors and expected to be received within the period. Inventory purchases are part of the normal course of our business and will be primarily funded through sales in our DTC segment.

Due to the seasonal fluctuations of our retail business (see "Seasonality"), our cash position may be lower during the first two fiscal quarters when working capital requirements peak and will generally increase in the third and fourth quarters. Historically, contractual obligations and commitments during the first two fiscal quarters were funded primarily through draws on our Revolving Credit Facility (see "Indebtedness"), and, to a lesser extent, sales generated from our operations and our management of working capital. In the third and fourth fiscal quarters, we have historically generated sufficient cash flow from operations to fund our remaining contractual obligations and commitments and to repay any draws on our Revolving Credit Facility during the first two fiscal quarters. We will continue to fund our upcoming commitments and obligations through the use of our Revolving Credit Facility and cash flow from operations. We believe that we will continue to generate sufficient cash flow from operations over the course of a fiscal year to fund our contractual obligations and commitments and the cost of our growth and development activities incurred during such fiscal year.

Financial Instruments

Commencing in Fiscal 2017, we have designated foreign currency forward contracts in a cash flow hedge to manage our exposure to certain U.S. dollar denominated purchases. At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy in undertaking the hedge transaction. At inception and each fiscal quarter-end thereafter, the Company formally assesses effectiveness of the cash flow hedges.

To the extent the hedging relationship is assessed as effective, the change in the fair value of the foreign currency forward contracts, net of taxes, is recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income (loss). Any ineffective portion of changes in the fair value of the foreign currency forward contracts are recognized immediately in net income.

The fair value of foreign currency forward contracts is determined using a valuation technique that employs the use of market observable inputs and based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money.

As of February 3, 2018, the Company has recorded a derivative liability of $1,233, representing foreign currency forward contracts to buy U.S. $52,315 at an average rate of 1.26. As at February 3, 2018, the exchange rate was 1.24.

All other financial assets and financial liabilities are measured at amortized cost using the effective interest method.

Share Information - Prior to Completion of the IPO

Prior to the completion of the IPO, we were authorized to issue an unlimited number of Class A, B and C Shares, with no par value. The Class A, B and C Shares were identical, except that the aggregate number of votes attached to the Class B Shares, as a class, could at no times exceed 15% of the votes cast at a meeting of shareholders (allocated proportionately among all holders of Class B Shares) and the Class C Shares did not contain voting rights. The Class A, B and C Shares ranked *pari passu* in all respects, including the right to receive dividends and with respect to any distribution of our assets.

Prior to completion of the IPO, there were 156,845,150 Class A Shares, 39,148,787 Class B Shares, and no Class C Shares issued and outstanding. In addition there were 14,069,635 options and 74,627 RSUs, each representing a right to acquire one Class C Share, issued and outstanding.

Pre-Closing Capital Changes

In connection with and immediately prior to closing of the IPO, all outstanding Class A Shares, Class B Shares, options and RSUs were effectively consolidated on a 0.214193-to-one basis into Shares or securities exercisable for Shares.

Current Share Information

Following the closing of the IPO, the Company granted 260,649 options under its Omnibus Incentive Plan (the "**Omnibus Plan**"), comprised of both time-based options and performance-based options. The options have a contractual life of 10 years. During Q4 2017, the Company granted 40,000 time-based options under the Omnibus Plan.

As of February 3, 2018 and April 17, 2018, there were 41,980,500 Shares issued and outstanding and no preferred shares issued and outstanding. In addition, there were 3,314,250 options and 15,985 RSUs outstanding under the Company's Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Plan. 212,791 options and 15,985 RSUs were vested as of such date. Each option and RSU is, or will become, exercisable for one Share.

Related Party Transactions

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight beneficially own approximately 47.7% of the total outstanding Shares and the Founders beneficially own approximately 12.0% of the total outstanding Shares. All transactions as described below are in the normal course of business and have been accounted for at their exchange value.

As of February 3, 2018, we have incurred the following costs in connection with transactions entered into with related parties:

CAD $000s	Q4 2017	Q4 2016	Fiscal 2017	Fiscal 2016
Rent(1)	197	195	786	796
Consulting Fees(2)	-	117	267	567
Reimbursements(2)	6	18	35	148
Monitoring Fees(3)	-	560	921	1,060

Notes:

(1) Our distribution facility and leather factory are each owned by entities controlled by the Founders and certain of their family members. We have entered into lease arrangements in respect of these premises. The leather factory lease terminates on November 30, 2018, with a right to extend the term for two further periods of five years each, and has an annual rent of $250. The distribution facility lease terminates on November 30, 2018, with a right to extend the term for one further period of one year. Annual rent in respect of the distribution facility is $535.

(2) Pursuant to consulting agreements dated December 1, 2015 between the Company and the Founders and certain of the Founders' family members (the "**Consulting Agreements**"), the Founders and certain of their family members are provided with consulting fees, clothing allowances and reimbursement for certain travel, meals and phone expenses. The Consulting Agreements terminated upon completion of the IPO. Accordingly, the Company is no longer required to pay consulting fees or reimbursements of expenses as previously incurred.

(3) In accordance with the Unanimous Shareholder Agreement, the Company paid Searchlight a monitoring fee and reimburses Searchlight for certain out-of-pocket expenses incurred during the year in connection with matters regarding the Company. The Unanimous Shareholder Agreement and, therefore, the monitoring fee and expense reimbursement payable thereunder, terminated upon completion of the IPO.

In April 2016, the Company issued and sold the equivalent of 53,548 Shares to a member of the Company's executive team.

In February 2016, a member of the Company's executive team purchased the equivalent of 214,193 Shares from Searchlight at a price of $4.67 per Share. The purchase was paid for using $500 in cash and a $500 loan from the Company. The $500 loan from the Company is to be repaid at the earlier of six years from the loan date and upon a liquidity sale of the Company. Interest accrues at a rate of 4% per annum and will be payable at the start of each calendar year following the date of the loan. Unpaid interest may be deemed paid by increasing the principal amount outstanding. As at February 3, 2018, the outstanding balance on the loan and accrued interest was $541 (January 28, 2017 – $520).

Financial Outlook

We believe we remain on-track to achieve our previously stated financial targets for Fiscal 2019. We believe we will achieve:

- annual sales between $410,000 and $450,000;
- annual Adjusted EBITDA between $61,000 to $68,000; and
- annual Adjusted Net Income between $35,000 and $40,000.

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

Implicit in such forward-looking information is certain current assumptions, relating to, among others: achieving average annual comparable sales growth in line with or above Fiscal 2016, notwithstanding quarterly variations; growing our e-commerce business; the opening of new corporate stores in Canada and the United States; the renovation or expansion of existing corporate stores; the opening of new international partner-operated stores; establishing a presence in new international markets with new international operating partners; increasing investment in marketing initiatives; strategic expansion of our existing product offering in leather and footwear; inflation rates remaining consistent with historical levels; taxation rates remaining consistent with historical levels; and debt repayments remaining consistent with the terms set out in this MD&A. These current assumptions, although considered reasonable by us at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Company, including with respect to our anticipated annual sales, annual Adjusted EBITDA and annual Adjusted Net Income, are subject to a number of risks and uncertainties, including among others those set forth under "Risks and Uncertainties" in this MD&A and "Risk Factors" in our AIF.

Risks and Uncertainties

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

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

Financial risk management is carried out under practices approved by our Board. This includes identifying, evaluating and hedging financial risks based on the requirements of our organization. Our Board provides guidance for overall risk management, covering many areas of risk including foreign currency exchange risk, interest rate risk, credit risk, and liquidity risk.

Foreign Currency Exchange Risk

Our consolidated financial statements are expressed in Canadian dollars. However, a portion of our operations are denominated in U.S. dollars. Sales and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates which such items are recognized. Appreciating foreign currencies relative to the Canadian dollar in respect of sales will positively impact operating income and net income associated with our foreign operations by increasing our sales and vice versa.

We are also exposed to fluctuations in the prices of U.S. dollar denominated purchases resulting from changes in U.S. dollar exchange rates. A depreciating Canadian dollar relative to the U.S. dollar will have a negative impact on year-over-year changes in reported operating income and net income by increasing the cost of finished goods and raw materials and vice versa. As described above, we enter into certain qualifying foreign currency forward contracts that are designated as cash flow hedges.

Interest Rate Risk

We are exposed to changes in interest rates on our cash 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. As of February 3, 2018, we only have variable interest rate debt. Based on the outstanding borrowings as discussed under "Indebtedness", a one percentage point change in the average interest rate on our borrowings would have changed interest expense by $276 in Q4 2017 and $1,130 in Fiscal 2017. The impact of future interest rate expense resulting from future changes in interest rates will depend largely on the gross amount of our borrowings at such time.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash, loan receivable, and accounts receivable. The Company limits its exposure to credit risk with respect to cash by dealing with Canadian financial institutions. The Company's accounts receivable consist primarily of receivables from our business partners from the Partners and Other segment, which are settled in the following fiscal quarter.

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 sales, income and working capital needs. The Revolving Credit Facility is also used to maintain liquidity.

Disclosure Controls and Procedures

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

An evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as of February 3, 2018.

Although the Company's disclosure controls and procedures were operating effectively as of February 3, 2018, 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

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

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework and criteria established in "Internal Control – Integrated Framework' published by The Committee of Sponsoring Organizations of the Treadway Commission, 2013". 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 February 3, 2018.

In designing such controls, it should be recognized that due to inherent limitations, any controls, 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.

Critical Accounting Estimates and Judgments

The Annual Financial Statements have been prepared in accordance with IFRS. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are more fully described in our Annual Financial Statements, we believe that the following accounting policies and estimates are critical to our business operations and understanding our financial results.

The following are the key judgments and sources of estimation uncertainty that we believe could have the most significant impact on the amounts recognized in our consolidated financial statements.

Inventory valuation

Merchandise inventories are valued at the lower of average cost, using the retail method, and net realizable value, which requires the Company to utilize estimates related to fluctuations in shrinkage, future retail prices, future sell-through of units, seasonality and costs necessary to sell the inventory. The Company records a write-down to reflect management's best estimate of the net realizable value of inventory based on the above factors.

Impairment of non-financial assets

The Company is required to use judgment in determining the grouping of assets to identify their cash generating units ("**CGUs**") for the purpose of testing store related fixed assets. Judgment is further required to determine appropriate groupings of CGUs for the level at which non-store related assets are tested for impairment including intangible assets and goodwill. The Company has determined each store location is a separate CGU for the purpose of fixed assets impairment testing. For purposes of non-store related non-financial assets, CGUs are grouped at the lowest level that these assets are monitored for internal management purposes or the lowest level where cash inflows are generated. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the recoverable amount, defined as the higher of the value-in-use and the fair value less costs to sell, of a CGU or a group of CGUs, various estimates are used. Value-in-use is determined based on management's best estimate of projected future sales, gross profit margin and earnings which is discounted by using an estimate of industry pre-tax weighted average cost of capital adjusted for the Company's estimated risk profile.

Share-based compensation

The Company measures the value of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The Company is also required to determine the most appropriate inputs to the valuation model, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility, distribution yield, and forfeiture rate.

Gift card breakage

The Company recognizes revenue from unredeemed gift cards ("gift card breakage") if the likelihood of gift card redemption by the customer is considered to be remote. The Company estimates its average gift card breakage rate based on historical redemption rates. The resulting revenue is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift card is issued.

Income taxes

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, and possible audits of income tax and other tax filings by the tax authorities.

New Accounting Standards Adopted in the Year

- In January 2016, the IASB issued amendments to IAS 7, Statements of Cash Flows, which requires specific disclosures for movements in certain liabilities on the statement of cash flows. These amendments are applicable for annual periods beginning on or after January 1, 2017. The Company adopted these amendments and included additional disclosures in Note 9 of its consolidated financial statements.

- In January 2016, the IASB issued "Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12, Income Taxes ("IAS 12"))". The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company adopted the amendments to IAS 12 in its consolidated financial statements with no material impacts.

New Accounting Standards and Interpretations Not Yet Adopted

Certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments, and interpretations are provided below.

- In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("**IFRS 15**"), replacing IAS 18, *Revenue*; IAS 11, *Construction Contracts*; and related interpretations. The new standard provides a comprehensive 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 becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. Based on its preliminary assessment, the Company does not believe the new standard will have a significant impact on the annual revenue recognized.

- In 2016, the IASB issued IFRS 16, *Leases* ("**IFRS 16**"), replacing IAS 17, *Leases*, and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

- In 2016, the IASB issued International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 22, *Foreign Currency Transactions and Advance Consideration* ("**Interpretation 22**"), in response to diversity in practice in determining the appropriate exchange rate to use when translating assets, expenses or income, when foreign currency consideration is paid or received in advance of the item to which it relates. Interpretation 22 clarifies that the date of the transaction for the purpose of determining the exchange

rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. Interpretation 22 is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

- In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("**Interpretation 23**") in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law.

  Interpretation 23 requires an entity to reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty, measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable), reassess the judgments and estimates applied if facts and circumstances change (e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires), and consider whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution.

  Interpretation 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if this is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Additional Information

Additional information relating to the Company, including the AIF, is available on SEDAR at www.sedar.com. The Company's Shares are listed for trading on the TSX under the symbol "ROOT".

Roots

ROOTS CORPORATION

Consolidated Financial Statements

For the 53 week period ended February 3, 2018 and
for the 52 week period ended January 28, 2017
(In Canadian dollars)

KPMG

KPMG LLP
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3
Tel 905-265 5900
Fax 905-265 6390
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Roots Corporation

We have audited the accompanying consolidated financial statements of Roots Corporation, which comprise the consolidated statement of financial position as at February 3, 2018 and January 28, 2017, the consolidated statements of net income, comprehensive income, changes in shareholders' equity and statement of cash flows for the 53 week period ended February 3, 2018 and for the 52 week period ended January 28, 2017 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Roots Corporation as at February 3, 2018 and January 28, 2017, and its consolidated financial performance and its consolidated statement of cash flows for the 53 week period ended February 3, 2018 and for the 52 week period ended January 28, 2017, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 17, 2018
Vaughan, Canada

ROOTS CORPORATION

Consolidated Statement of Financial Position
(In thousands of Canadian dollars)

As at February 3, 2018 and January 28, 2017

	Note	February 3, 2018	January 28, 2017
Assets			
Current assets:			
Cash		$ 1,809	$ 25,257
Accounts receivable		6,420	4,946
Inventories	4	35,407	32,682
Prepaid expenses		5,580	1,573
Total current assets		49,216	64,458
Non-current assets:			
Loan receivable	17	541	520
Fixed assets	5	36,981	31,219
Intangible assets	6	203,408	208,541
Goodwill	7	52,705	52,705
Total non-current assets		293,635	292,985
Total assets		$ 342,851	$ 357,443
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 18,306	$ 16,448
Deferred revenue		4,647	3,840
Income taxes payable	14	6,589	5,536
Current portion of long-term debt	9	4,984	5,550
Derivative Obligations		1,233	–
Total current liabilities		35,759	31,374
Non-current liabilities:			
Deferred tax liabilities	14	21,166	21,248
Deferred lease costs		4,815	2,154
Finance lease obligation		894	456
Long-term debt	9	79,481	98,909
Other non-current liabilities	6	1,763	2,118
Total non-current liabilities		108,119	124,885
Total liabilities		143,878	156,259
Shareholders' equity:			
Common shares	10	195,994	195,994
Contributed surplus	12	1,675	483
Accumulated other comprehensive loss		(904)	–
Retained earnings		2,208	4,707
Total shareholders' equity		198,973	201,184
Total liabilities and shareholders' equity		$ 342,851	$ 357,443
Commitments and contingencies	15		
Subsequent events	18		

On behalf of the Board of Directors:

"Erol Uzumeri" Director

"Richard P. Mavrinac" Director

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

Consolidated Statement of Net Income
(In thousands of Canadian dollars, except per share amounts)

For the 53 week period ended February 3, 2018 and for the 52 week period ended January 28, 2017

	Note	February 3, 2018	January 28, 2017
Sales		$ 326,057	$ 281,886
Cost of goods sold	4	144,059	134,733
Gross profit		181,998	147,153
Selling, general and administrative expenses		151,867	129,490
Income before interest expense and income taxes expense		30,131	17,663
Interest expense	9	5,728	6,112
Income before income taxes		24,403	11,551
Income taxes expense	14	6,902	3,366
Net income		$ 17,501	$ 8,185
Basic earnings per share	11	$ 0.42	$ 0.19
Diluted earnings per share	11	$ 0.41	$ 0.19

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

Consolidated Statement of Comprehensive Income
(In thousands of Canadian dollars)

For the 53 week period ended February 3, 2018 and for the 52 week period ended January 28, 2017

	Note	February 3, 2018	January 28, 2017
Net income		$ 17,501	$ 8,185
Other comprehensive income (loss), net of taxes:			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	8, 13	(2,320)	–
Cost of hedging excluded from cash flow hedges	8, 13	52	–
Tax impact of cash flow hedges	8, 13	604	–
Total other comprehensive income (loss)		(1,664)	–
Total comprehensive income		$ 15,837	$ 8,185

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

Consolidated Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars)

For the 53 week period ended February 3, 2018 and for the 52 week period ended January 28, 2017

February 3, 2018	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
Balance, January 29, 2017		$ 195,994	$ 483	$ 4,707	$ –	$ 201,184
Net income		$ –	$ –	$ 17,501	$ –	$ 17,501
Net gain (loss) from change in fair value of cash flow hedges, net of income taxes,		–	–	–	(1,664)	(1,664)
Transfer of realized loss on cash flow hedges to inventories, net of income taxes		–	–	–	760	760
Distributions declared	10	–	–	(20,000)	–	(20,000)
Share-based compensation	12	–	1,192	–	–	1,192
Balance, February 3, 2018		$ 195,994	$ 1,675	$ 2,208	$ (904)	$ 198,973

January 28, 2017	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
Balance, January 31, 2016		$ 195,744	$ 9	$ (3,478)	$ –	$ 192,275
Net income		$ –	$ –	$ 8,185	$ –	$ 8,185
Issuance of shares	10	250	–	–	–	250
Share-based compensation	12	–	474	–	–	474
Balance, January 28, 2017		$ 195,994	$ 483	$ 4,707	$ –	$ 201,184

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

Consolidated Statement of Cash Flows
(In thousands of Canadian dollars)

For the 53 week period ended February 3, 2018 and for the 52 week period ended January 28, 2017

	February 3, 2018	January 28, 2017
Cash provided by (used in):		
Operating activities:		
Net income	$ 17,501	$ 8,185
Items not involving cash:		
Depreciation and amortization	10,886	9,803
Share-based compensation expense (Note 12)	1,192	474
Impairment of fixed assets (Note 4)	1,281	987
Deferred lease costs	847	1,622
Amortization of lease intangibles	907	1,321
Interest expense	5,728	6,112
Income taxes expense	6,902	3,366
Interest paid	(5,105)	(5,528)
Taxes paid	(5,602)	(513)
Change in non-cash operating working capital:		
Accounts receivable	(1,474)	564
Inventories	(2,725)	5,736
Prepaid expenses	(4,007)	(81)
Accounts payable and accrued liabilities	2,514	(2,404)
Deferred revenue	807	424
	29,652	30,068
Financing activities:		
Long-term debt financing costs (Note 9)	(999)	–
Repayment of long-term debt (Note 9)	(19,654)	(4,163)
Finance lease payments	(203)	–
Distributions paid (Note 10)	(20,000)	–
Issuance of common shares (Note 10)	–	250
	(40,856)	(3,913)
Investing activities:		
Additions to fixed assets	(14,058)	(12,813)
Tenant allowance received	1,814	764
	(12,244)	(12,049)
Increase in cash	(23,448)	14,106
Cash, beginning of period	25,257	11,151
Cash, end of period	$ 1,809	$ 25,257

See accompanying notes to consolidated financial statements.

1. Nature of operations and basis of presentation

Nature of operations

Established in 1973, Roots is an iconic lifestyle brand with a rich Canadian heritage and a portfolio of premium apparel, leather goods, accessories and footwear. The design of Roots products is driven by global consumer insights, and supported by the Company's flexible sourcing network, proven distribution footprint and Canadian leather manufacturing facility. Through its omni-channel footprint of 116 corporate retail stores in Canada, three corporate retail stores in the United States, 110 partner-operated stores in Taiwan, 32 partner-operated stores in China and its e-commerce platform, Roots Corporation is able to reach a broad cross-section of global consumers. Roots products are worn by young professionals, students, families, athletes and entertainment icons.

Roots Corporation was incorporated under the *Canada Business Corporations Act* on October 14, 2015. Its head office and registered office is located at 1400 Castlefield Avenue, Toronto, Ontario M6B 4C4. Roots Corporation and its subsidiaries are collectively referred to in these consolidated financial statements as the "Company" or "Roots Corporation."

On October 25, 2017, the Company completed an initial public offering (the "IPO") of its common shares ("Shares") through a secondary offering of Shares by its principal shareholders. The IPO of 16,667,000 Shares at a price of $12.00 per Share raised gross proceeds of $200,004 for the selling shareholders.

The Company's Shares are listed on the Toronto Stock Exchange under the trading symbol "ROOT".

Basis of preparation

(a) Fiscal period

The fiscal year of the Company consists of a 52 or 53 week period ending near the last Saturday in January of each year. The current fiscal period for the consolidated financial statements contains 53 weeks and the comparative fiscal year contains 52 weeks.

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on April 17, 2018.

(c) Basis of measurement

The consolidated financial statements were prepared on a historical cost basis, and share-based compensation stated at fair value at the grant date.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for the periods presented.

(d) Functional currency

The consolidated financial statements are presented in Canadian dollars, the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated.

(e) Basis of consolidation

The consolidated financial statements include the accounts of Roots Corporation and its wholly-owned subsidiaries, Roots USA Corporation, Roots International ULC and Roots Leasing Corporation. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its returns from the entity.

Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

(f) Share Information

All information related to Shares presented in the consolidated financial statements are presented as if the Pre-Closing Capital Changes (see Note 10) took effect at the start of the comparative period.

(g) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity 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. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) *Inventory valuation*

Merchandise inventories are valued at the lower of average cost, using the retail method, and net realizable value, which requires the Company to utilize estimates related to fluctuations in shrinkage, future retail prices, future sell-through of units, seasonality and costs necessary to sell the inventory. The Company records a write-down to reflect management's best estimate of the net realizable value of inventory based on the above factors.

(ii) *Impairment of non-financial assets*

The Company is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purpose of testing store related fixed assets. Judgment is further required to determine appropriate groupings of CGUs for the level at which non-store related assets are tested for impairment including intangible assets and goodwill. The Company has determined each store location is a separate CGU for the purpose of fixed assets impairment testing. For purposes of non-store related non-financial assets, CGUs are grouped at the lowest level that these assets are monitored for internal management purposes or the lowest level where cash inflows are generated. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell, of a CGU or a group of CGUs, various estimates are used. Value-in-use is determined based on management's best estimate of projected future sales, gross profit margin and earnings which is discounted by using an estimate of industry pre-tax weighted average cost of capital adjusted for the Company's estimated risk profile.

(iii) *Share-based compensation*

The Company measures the value of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The Company is also required to determine the most appropriate inputs to the valuation model, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility, distribution yield, and forfeiture rate.

(iv) *Gift card breakage*

The Company recognizes revenue from unredeemed gift cards ("gift card breakage") if the likelihood of gift card redemption by the customer is considered to be remote. The Company estimates its average gift card breakage rate based on historical redemption

rates. The resulting revenue is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift card is issued.

(v) *Income taxes*

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, and possible audits of income tax and other tax filings by the tax authorities.

2. Significant accounting policies

The accounting policies described below have been applied consistently to the periods presented in the consolidated financial statements:

(a) Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Other non-monetary consolidated statement of financial position items denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the respective transaction dates. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at average rates of exchange prevailing during the period. The resulting gains or losses on translation are included in the determination of net income for the period and comprehensive income.

(b) Revenue recognition

Revenue includes sales to customers through retail stores operated by the Company and through e-commerce. Sales to customers through retail stores are recognized at the time of purchase, net of a provision for returns. E-commerce sales to customers are recognized at the time of delivery, net of a provision for returns. The provision for returns is estimated based on the last 12 months' return rate for retail stores and e-commerce sales, respectively.

Revenue also includes sales to the Company's international partner and other corporate customers, which are recognized at the time of shipment or receipt, depending on the specific contractual terms of each customer. Contractually, the Company's international partner and wholesale partners are unable to return goods purchased from the Company.

Royalty revenue is included in sales and is recognized on an accrual basis in accordance with the various contractual agreements, based on the financial results as reported by the

Company's international partner and other third-party licensees, and when collectability is reasonably determined.

The Company sells gift cards to customers and recognizes revenue as gift cards are redeemed. The Company also recognizes gift card breakage if the likelihood of gift card redemption by the customer is considered to be remote.

The liability associated to gift cards is recorded as deferred revenue on the consolidated statement of financial position.

(c) Inventories

Finished goods are comprised of merchandise inventories which are valued at the lower of average cost using the retail method and net realizable value. For inventories purchased from third party vendors, cost includes the cost of purchase, freight, import taxes and duties that are directly incurred to bring inventories to their present location and condition.

For inventories manufactured by the Company, cost includes direct labour, raw materials, manufacturing and overhead costs. Raw materials inventories are recorded at the lower of cost and net realizable value. Cost of raw materials is determined on a first-in, first-out basis.

Work in progress is recorded at the lower of average cost and net realizable value.

The Company estimates the net realizable value as the amount at which inventories are expected to be sold, taking into account fluctuations in retail prices due to seasonality, age, excess quantities, condition of the inventory, nature of the inventory and the estimated variable costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(d) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Depreciation is primarily recognized in selling, general and administrative expenses in the consolidated statement of net income, on a diminishing-balance basis, over the estimated useful lives of each component of an item of fixed assets from the date that they are available

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

for use. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted, prospectively, if appropriate.

Fixed assets are depreciated over the estimated useful lives of the assets using the following bases and annual rates:

Asset	Basis	Rate
Computer hardware	Diminishing-balance	20%
Furniture and fixtures	Diminishing-balance	20%
Manufacturing equipment	Diminishing-balance	10%
Computer software	Straight line	3 - 5 years
Leasehold improvements	Straight line	Term of lease to a maximum of 10 years

(e) Intangible assets

Intangible assets that have a definite useful life are measured at cost less any accumulated amortization and accumulated impairment losses. Intangible assets with definite lives are amortized over their useful economic life on a straight-line basis from the date that they are available for use. Amortization relating to licence agreements, customer relationships, and favourable/unfavourable lease agreements is recognized in selling, general and administrative expenses in the consolidated statement of net income. The estimated useful lives for the current period is as follows:

Licence agreements	4 - 13 years
Customer relationships	10 years
Leases	Life of the lease
Trade names	Indefinite life
Goodwill	Indefinite life

Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted, prospectively, if appropriate.

Intangible assets with indefinite lives, comprising of trade names, are not amortized but are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that the asset might be impaired, as detailed in the accounting policy note on impairment.

(f) Impairment of non-financial assets

Assets with finite lives are tested for impairment at each reporting date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite life intangibles are tested for impairment at least annually at the year-end reporting date, and whenever there is an indication that the asset may be impaired.

Events or changes in circumstances which may indicate impairment include a significant change to the Company's operations, a significant decline in performance or a change in market conditions which adversely affect the Company.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value-in-use. For purposes of measuring recoverable amounts, store assets are grouped at the lowest levels for which there are largely independent cash flows, which is referred to as a CGU, being at the individual store level for the Company.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Leased assets

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is reassessed if the terms of the lease are changed.

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. Payments under an operating lease are recognized in selling, general and administrative expenses on a straight-line basis over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent, which is included in deferred lease costs on the consolidated statement of financial position.

Tenant allowances are recorded as deferred lease costs and amortized as a reduction of rent expense over the term of the related leases. As at February 3, 2018, all of the Company's leases on premises were accounted for as operating leases.

(h) Income taxes

Income taxes expense comprises current and deferred taxes. Current income taxes and deferred income taxes are recognized in net income for the period, except for items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income or net income for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Share-based compensation

The grant date fair value of share-based compensation awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(j) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company and the weighted average number of common shares outstanding, plus the weighted average number of common shares that would be issued on exercise of dilutive options granted to employees, as calculated under the treasury stock method.

(k) Financial instruments

The Company early adopted all of the requirements of IFRS 9 (2014), *Financial Instruments* ("IFRS 9 (2014)"), with a date of initial application of October 14, 2015. This standard establishes principles for the financial reporting classification and measurement of financial assets and financial liabilities. This standard also incorporates a new hedging model, which increases the scope of hedged items eligible for hedge accounting and aligns hedge accounting more closely with risk management. This standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 (2014) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in International Accounting Standard ("IAS") 39, *Financial instruments - Recognition and Measurement*. The approach in IFRS 9 (2014) is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets.

Financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method, net of any impairment losses.

The Company uses the "expected credit loss" model for calculating impairment and recognizes expected credit losses as a loss allowance in the consolidated statement of financial position if they relate to a financial asset measured at amortized cost. The Company's accounts receivable are typically short-term receivables with payments received within a 12-month period and do not have a significant financing component. Therefore, the Company recognizes impairment and measures expected credit losses as lifetime expected credit losses. The carrying amount of these assets in the consolidated statement of financial position is stated net of any loss allowance.

Financial liabilities, excluding derivative liabilities, are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Company enters into foreign currency forward contracts ("forward contracts") under a cash flow hedge for its foreign currency exposures on a portion of its U.S. dollar denominated

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

purchases. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. At inception and each quarter-end thereafter, the Company formally assesses the effectiveness of its cash flow hedges.

For a cash flow hedge in respect of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income. The time value component of forward contracts designated as cash flow hedges is excluded from the hedging relationship and recorded in other comprehensive income as a cost of hedging and presented separately.

The forward contracts used for hedging are recognized at fair value. Subsequent to initial recognition, the forward contracts are measured at fair value and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect net income, the effective portion of change in the fair value of the derivative is recognized in other comprehensive income and presented in accumulated other comprehensive income, net of deferred taxes. When the Company purchases the hedged inventories, the amounts are reclassified from accumulated other comprehensive income to cost of purchases. Any ineffective portion of changes in the fair value of the forward contracts is recognized immediately in net income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income is recognized immediately in net income.

The Company has classified its financial assets and financial liabilities as follows:

	Classification	Measurement
Financial assets:		
Cash	Fair value through profit or loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Loan receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Derivative obligations	Fair value through OCI	Fair value
Long-term debt	Other liabilities	Amortized cost
Finance lease obligation	Other liabilities	Amortized cost

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3 – inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect the difference between the instruments.

(l) New standards adopted in the year

In January 2016, the IASB issued amendments to IAS 7, *Statements of Cash Flows*, which requires specific disclosures for movements in certain liabilities on the statement of cash flows. These amendments are applicable for annual periods beginning on or after January 1, 2017. The Company adopted these amendments and included additional disclosures in Note 9 of its consolidated financial statements.

In January 2016, the IASB issued "*Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments to IAS 12, *Income Taxes* ("IAS 12"))". The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company adopted the amendments to IAS 12 in its consolidated financial statements with no material impacts.

(m) New standards and interpretations not yet adopted

In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), replacing IAS 18, *Revenue*; IAS 11, *Construction Contracts*; and related interpretations. The new standard provides a comprehensive 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

becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. Based on its preliminary assessment, the Company does not believe the new standard will have a significant impact on the annual revenue recognized.

In 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases*, and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2016, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 22, *Foreign Currency Transactions and Advance Consideration* ("Interpretation 22") in response to diversity in practice in determining the appropriate exchange rate to use when translating assets, expenses or income, when foreign currency consideration is paid or received in advance of the item to which it relates. Interpretation 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. Interpretation 22 is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("Interpretation 23") in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law.

Interpretation 23 requires an entity to reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty, measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable), reassess the judgments and estimates applied if facts and circumstances change (e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires), and consider whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution.

Interpretation 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if this is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

(In thousands of Canadian dollars, except per share amounts)

3. Operating Segments

The Company has two reportable operating segments:

(a) The "Direct-to-Consumer" segment comprises sales through corporate retail stores and e-commerce; and

(b) The "Partners and Other" segment consists primarily of the wholesale of Roots-branded products to our international operating partner and the royalties earned on the retail sales of Roots-branded products by our partner. The Partners and Other segment also consists of royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

The Company defines an operating segment on the same basis that the Chief Operating Decision Maker (the "CODM") uses to evaluate performance internally and to allocate resources. The Company has determined that the President and Chief Executive Officer is its CODM. The accounting policies of the reportable segments are the same as those described in the Company's summary of significant accounting policies (see Note 2). The Company measures each reportable operating segment's performance based on sales and gross profit, which is the profit metric used by the CODM for assessing performance of each segment. The Company does not report total assets or total liabilities based on its operating segments.

Information for each reportable operating segment, as presented to the CODM, is included below:

	February 3, 2018			January 28, 2017		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	$ 284,131	$ 41,926	$ 326,057	$ 244,353	$ 37,533	$ 281,886
Cost of goods sold	116,567	27,492	144,059	110,135	24,598	134,733
Gross profit	167,564	14,434	181,998	134,218	12,935	147,153
Selling, general and administrative expenses[1]	–	–	151,867	–	–	129,490
Income before interest expense and income taxes expense	–	–	30,131	–	–	17,663
Interest expense[1]	–	–	5,728	–	–	6,112
Income before income taxes	$ –	$ –	$ 24,403	$ –	$ –	$ 11,551

[1] These unallocated items represent income and expenses which management does not report when analyzing segment underlying performance.

4. Inventories

	February 3, 2018	January 28, 2017
Raw materials	$ 4,161	$ 4,648
Work in progress	1,988	3,068
Finished goods	29,258	24,966
	$ 35,407	$ 32,682

In connection with the acquisition by the Company of certain assets and the assumption of certain liabilities of Roots Canada Ltd. in October 2015, the acquired inventories included a fair value adjustment of $16,819, representing the difference between the cost of inventory and its fair value. Of this amount, $nil was recognized in cost of goods sold for the 53 week period ended February 3, 2018 (52 week period ended January 28, 2017 – $5,775).

The cost of merchandise inventories recognized as an expense and included in cost of goods sold for the 53 week period ended February 3, 2018 was $139,691 (52 week period ended January 28, 2017 – $130,490, including the fair value impact described above). Cost includes cost to purchase inventory plus freight, import taxes and duties.

During the 53 week period ended February 3, 2018, the Company recorded a write down of $1,072 (52 week period ended January 28, 2017 – $nil) for certain on-hand raw materials with net realizable values below cost.

(In thousands of Canadian dollars, except per share amounts)

5. Fixed assets

	Computer hardware	Furniture and fixtures	Manufacturing equipment	Computer software	Leasehold improvements	Finance leases	Total
Cost							
Balance, January 30, 2016	$ 900	$ 2,732	$ 583	$ 3,368	$ 17,522	$ –	$ 25,105
Additions	490	905	27	2,802	8,589	612	13,425
Disposals/adjustments	–	(45)	–	–	(948)	–	(993)
Balance, January 28, 2017	1,390	3,592	610	6,170	25,163	612	37,537
Additions	224	1,184	512	2,799	9,339	–	14,058
Disposals/adjustments	(500)	(546)	–	–	(1,631)	500	(2,177)
Balance, February 3, 2018	$ 1,114	$ 4,230	$ 1,122	$ 8,969	$ 32,871	$ 1,112	$ 49,418
Accumulated depreciation and impairment losses							
Balance, January 30, 2016	$ 46	$ 82	$ 11	$ 116	$ 74	$ –	$ 329
Depreciation	197	549	68	1,048	4,133	–	5,995
Disposals/adjustments	–	(45)	–	–	(948)	–	(993)
Fixed asset impairment	–	–	–	–	987	–	987
Balance, January 28, 2017	243	586	79	1,164	4,246	–	6,318
Depreciation	48	672	82	1,421	4,580	212	7,015
Disposals/adjustments	–	(546)	–	–	(1,631)	–	(2,177)
Fixed asset impairment	–	–	–	–	1,281	–	1,281
Balance, February 3, 2018	$ 291	$ 712	$ 161	$ 2,585	$ 8,476	$ 212	$ 12,437
Carrying amount							
January 28, 2017	$ 1,147	$ 3,006	$ 531	$ 5,006	$ 20,917	$ 612	$ 31,219
February 3, 2018	823	3,518	961	6,384	24,395	900	36,981

For the 53 week period ended February 3, 2018, the Company recorded $1,281 (52 week period ended January 28, 2017 – $987) of impairment losses on fixed assets in respect of five CGUs (52 week period ended January 28, 2017 – nine CGUs) in the Direct-to-Consumer operating segment as part of selling, general and administrative expenses.

For the 53 week period ended February 3, 2018, the Company had no impairment reversals on fixed assets (52 week period ended January 28, 2017 – nil).

When determining the value-in-use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU or the remaining lease term. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long-term growth rates consistent with the Company's strategic plan approved by the Board. The estimate of the value-in-use of the relevant CGUs was determined using a pre-tax discount rate of 14% at February 3, 2018 (January 28, 2017 – 15%).

6. Intangible assets, other non-current liabilities and goodwill

Intangible assets:

	Indefinite life trade names	Licensing arrangements	Customer relationships	Favourable lease agreements	Total
Cost					
Balance, January 30, 2016	$ 175,044	$ 25,910	$ 7,766	$ 6,310	$ 215,030
Balance, January 28, 2017	175,044	25,910	7,766	6,310	215,030
Balance, February 3, 2018	$ 175,044	$ 25,910	$ 7,766	$ 6,310	$ 215,030
Accumulated amortization and impairment losses					
Balance, January 30, 2016	$ –	$ 498	$ 128	$ 297	$ 923
Amortization	–	3,032	776	1,758	5,566
Balance, January 28, 2017	–	3,530	904	2,055	6,489
Amortization	–	3,081	790	1,262	5,133
Balance, February 3, 2018	$ –	$ 6,611	$ 1,694	$ 3,317	$ 11,622
Carrying amount					
January 28, 2017	$ 175,044	$ 22,380	$ 6,862	$ 4,255	$ 208,541
February 3, 2018	175,044	19,299	6,072	2,993	203,408

(In thousands of Canadian dollars, except per share amounts)

Other non-current liabilities:

		Unfavourable lease agreements
Cost		
Balance, January 30, 2016	$	2,636
Balance, January 28, 2017		2,636
Balance, February 3, 2018	$	2,636
Accumulated amortization and impairment losses		
Balance, January 30, 2016	$	81
Amortization		437
Balance, January 28, 2017	$	518
Amortization		355
Balance, February 3, 2018	$	873
Carrying amount		
January 28, 2017	$	2,118
February 3, 2018		1,763

Amortization expenses, impairment losses and reversals are recorded as part of selling, general and administrative expenses in the consolidated statement of net income in the period in which they occur. No impairment losses or reversals were recognized on intangible assets for the 53 week period ended February 3, 2018 (52 week period ended January 28, 2017 – $nil).

Amortization expense on definite life intangibles of $4,778 (52 week period ended January 28, 2017 – $5,129) has been recognized in the consolidated statement of net income. Indefinite life intangibles consisting of trade names are not amortized and instead tested for impairment annually or when such changes in events or circumstances indicate a trigger for impairment or a change in its future economic benefits that would result in assessing the appropriateness of its useful life.

The Company has determined trade names, primarily consisting of the Roots brand, have an indefinite life based on the brand's long history and the continued investment to be made to support the brand, which is the key value contributor to the on-going success of the business.

7. Goodwill

The Company performs an annual impairment assessment on goodwill by comparing the carrying value of assets within each CGU group to the recoverable amount of the CGU group.

For the purpose of impairment testing, goodwill is allocated to the grouping of CGUs, which represent the lowest level within the Company at which these assets are monitored for internal management purposes. Management has determined this grouping to be as follows:

Direct-to-Consumer	$	44,799
Partners and Other		7,906
Total carrying amount of goodwill	$	52,705

The Company completed its annual impairment tests for goodwill and concluded that the recoverable amount exceeded the carrying amount for both CGUs.

The key assumptions used to calculate the recoverable amount are those regarding discount rates, growth rates, and expected improvement in margins.

The after-tax discount rate was determined to be 12% (January 28, 2017 – 13%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company. The pre-tax discount rate was 16% (January 28, 2017 – 17%).

The Company included a minimum of five years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the five-year period using an estimated terminal growth rate of 2%. The budgeted earnings before depreciation and amortization, interest expense and income taxes ("EBITDA") growth is based on the Company's strategic plan approved by the Board.

8. Financial instruments

The Company has determined that the carrying amount of its short-term financial assets and financial liabilities approximates its fair value due to the short-term maturity of these financial instruments.

The fair value of long-term debt approximates its carrying value, as determined based on Level 2 of the fair value hierarchy (see Note 2).

The fair value of derivative obligations consisting of forward contracts is determined using a valuation technique that employs the use of market observable inputs and is based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money. This has been determined using Level 2 of the fair value hierarchy.

(In thousands of Canadian dollars, except per share amounts)

There were no transfers between levels of the fair value hierarchy for the 53 week period ended February 3, 2018 or 52 week period ended January 28, 2017.

In 2017, the Company entered into forward contracts to hedge its exposure for a portion of U.S. dollar denominated purchases. As at February 3, 2018, the Company had outstanding forward contracts to buy US$52,315 at an average forward rate of 1.26.

For the 53 week period ended February 3, 2018, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a loss of $2,320 (net of tax – $1,702), which was recorded in other comprehensive income.

9. Long-term debt

On December 1, 2015, the Company entered into a secured credit agreement (the "Credit Agreement") with a syndicate of lenders to obtain an initial term loan (the "Term Credit Facility") for an aggregate principal amount not exceeding $111,000 and a revolving credit loan (the "Revolving Credit Facility") not exceeding $25,000, less the aggregate swing line loan of $5,000 (together, the "Credit Facilities").

On April 19, 2017, the Company amended the Credit Agreement to increase the availability under the Revolving Credit Facility to an amount not exceeding $50,000, less the aggregate swing line loan of $10,000.

On September 6, 2017, the Company further amended and extended the Credit Facilities. The Credit Facilities, as amended, are comprised of (i) the Revolving Credit Facility in the amount of $50,000 and (ii) an approximately $100,000 Term Credit Facility, both bearing interest in accordance with the Trailing Leverage Multiple (as defined below) and maturing on September 6, 2022.

The Credit Facilities include an accordion feature in the amount of $25,000 and bear interest according to the type of borrowing advanced, which may be based on a reference rate of the U.S. base rate or the Canadian prime rate, plus a margin that ranges from 100 to 225 basis points ("bps") or the LIBOR rate or bankers' acceptances rate, plus a margin that ranges from 200 to 325 bps. The applicable margins are derived from the Company's senior leverage ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 100 bps at less than 2.0x senior leverage ratio, to 225 bps at greater than or equal to 3.5x senior leverage ratio, and (ii) where the LIBOR rate or bankers' acceptances rate is used, the margins range from 200 bps at less than 2.0x senior leverage ratio, to 325 bps at greater than or equal to 3.5x senior leverage ratio (the "Trailing Leverage Multiple").

The Company incurred $467 and $532 of costs associated with the first and second amendment, respectively, which have been recorded as debt financing costs against long-term debt and will be recognized in interest expense over the term of the loan.

The following table reconciles the changes in cash flows from financing activities for long-term debt for the 53 week period ended February 3, 2018:

	February 3, 2018	January 28, 2017
Long-term debt, beginning of period	$ 104,459	$ 108,019
Long-term debt repayments of term loan	(19,654)	(4,163)
Long-term debt financing costs	(999)	–
Total cash flow from long-term debt financing activities	83,806	103,856
Amortization of long-term debt financing costs	659	603
Total non-cash long-term debt activity	659	603
Total long-term debt, end of period	$ 84,465	$ 104,459
Recorded in the consolidated balance sheet as follows:		
Current portion of long-term debt	$ 4,984	$ 5,550
Long-term portion of long-term debt	79,481	98,909
	$ 84,465	$ 104,459

As at February 3, 2018, principal repayments due on long-term debt were as follows:

	Term loan
Within 1 year	$ 4,984
Within 1 - 2 years	4,984
Within 2 - 3 years	4,984
Within 3 - 4 years	4,984
Within 4 - 5 years	67,247
Total[1]	$ 87,183

[1] Total long-term debt of $84,465 is net of $2,718 of unamortized long-term debt financing costs.

Total interest expense for the 53 week period ended February 3, 2018 was $5,728 (52 week period ended January 28, 2017 - $6,112), comprised of:

	February 3, 2018	January 28, 2017
Interest paid on long-term debt	$ 4,915	$ 5,381
Amortization of long-term debt financing costs	659	603
Other	154	128
Interest Expense	$ 5,728	$ 6,112

As at February 3, 2018, the Company had outstanding letters of credit of (i) US$nil (January 28, 2017 – US$27); and (ii) $nil (January 28, 2017 – $36) relating to purchases from foreign suppliers.

10. Share Capital

On October 25, 2017, the Company successfully completed the IPO at a price of $12.00 per Share through a secondary sale of Shares by its principal shareholders. The Company's principal shareholders sold an aggregate of 16,667,000 Shares for total gross proceeds of $200,004. The Company did not receive any of the proceeds from the IPO. Costs relating to the IPO (excluding the underwriters' fees payable by the selling shareholders), amounted to $3,733 for the 53 week period ended February 3, 2018, and were expensed in selling, general and administrative expenses as incurred.

Immediately prior to the closing of the IPO, the following capital changes were implemented by the Company (the "Pre-Closing Capital Changes"):

- all of the outstanding Class B Shares of the Company ("Class B Shares") were converted into Class A Shares of the Company ("Class A Shares") on a one-for-one basis;
- immediately following the foregoing conversion, the Company's share capital was amended to be comprised of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series;
- each Class A Share was exchanged for one Share;

following the foregoing share exchanges:

- all of the Company's issued and outstanding Shares were consolidated on a 0.214193-to-one basis; and
- each stock option to acquire, and restricted share unit ("RSU") exercisable to acquire Class C Shares of the Company, outstanding immediately prior to the closing of the IPO, were exchanged on a 0.214193-to-one basis for stock options and RSUs exercisable to acquire Shares at a post-

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

consolidation exercise price such that the in-the-money value of such stock options remained unchanged.

The Company's authorized share capital consists of an unlimited number of Shares and an unlimited number of preferred shares, issuable in series. The holders of Shares are entitled to receive distributions as declared from time to time by the Board. Shareholders are entitled to one vote per Share at shareholder meetings of the Company.

Preferred shares of each series, if and when issued, will, with respect to the payment of dividends, be entitled to preference over Shares. Except as provided in any special rights or restrictions attaching to any series of preferred shares issued from time to time, the holders of preferred shares will not be entitled to vote at any shareholder meetings of the Company.

During the 53 week period ended February 3, 2018, the Company paid a one-time distribution of $20,000 to Shareholders (52 week period ended January 28, 2017 – $nil), equivalent to $0.48 per Share.

As at February 3, 2018, there were 41,980,500 Shares and no preferred shares issued and outstanding. All issued Shares are fully paid.

The following table provides a summary of changes to the Company's share capital:

	February 3, 2018		January 28, 2017	
	Number of Shares	Share capital	Number of Shares	Share capital
Outstanding Shares, beginning of period	41,980,500	$ 195,994	41,926,952	$ 195,744
Issuance of Shares	–	–	53,548	250
Outstanding Shares, end of period	41,980,500	$ 195,994	41,980,500	$ 195,994

(In thousands of Canadian dollars, except per share amounts)

11. Earnings per Share

The Company presents basic and diluted earnings per Share ("EPS") data for its Shares. Basic EPS is calculated by dividing net income by the weighted average number of Shares outstanding during the period. Diluted EPS is determined by adjusting net income and the weighted average number of Shares outstanding, for the effects of all dilutive potential Shares, which comprise share-based compensation granted to employees.

	February 3, 2018	January 28, 2017
Weighted average Shares outstanding	41,980,500	41,970,967
Stock options	580,259	55,190
Dilutive weighted average Shares outstanding	42,560,759	42,026,157

	February 3, 2018	January 28, 2017
Net income	$ 17,501	$ 8,185
Basic earnings per Share	$ 0.42	$ 0.19
Diluted earnings per Share	0.41	0.19

For the 53 week period ended February 3, 2018, 1,850,841 performance-based stock options were not included in the calculation of basic or diluted EPS (January 28, 2017 – 1,677,079) as the conditions required to convert these options to Shares were not met. See Note 12 for more information regarding these stock options.

(In thousands of Canadian dollars, except per share amounts)

12. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy approximately 4.7 million shares. As at February 3, 2018, approximately 3.3 million stock options and 15,985 RSUs were granted and outstanding.

The following is a summary of the Company's stock option activity:

For the 53 week period ended February 3, 2018	Legacy Equity Incentive Plan		Legacy Employee Option Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	2,515,615	$ 4.77	–	$ –	–	$ –	2,515,615	$ 4.77
Granted	–	–	497,986	6.26	300,649	11.87	798,635	8.37
Outstanding options, end of period	2,515,615	$ 4.77	497,986	$ 6.26	300,649	$ 11.87	3,314,250	$ 5.64
Exercisable options, end of period	212,791	$ 4.75	–	$ –	–	$ –	212,791	$ 4.75

For the 52 week period ended January 28, 2017	Legacy Equity Incentive Plan		Legacy Employee Option Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	676,241	$ 4.67	–	$ –	–	$ –	676,241	$ 4.67
Granted	1,839,374	4.81	–	–	–	–	1,839,374	4.81
Outstanding options, end of period	2,515,615	$ 4.77	–	$ –	–	$ –	2,515,615	$ 4.77
Exercisable options, end of period	45,083	$ 4.67	–	$ –	–	$ –	45,083	$ 4.67

Legacy Equity Incentive Plan

On June 7, 2017, the Company amended and restated its Legacy Equity Incentive Plan (the "Legacy Equity Incentive Plan"), adopted on December 1, 2015. The Legacy Equity Incentive Plan is a part of a legacy compensation program pursuant to which four executive officers and one director of the Company were granted time-based stock options and performance-based stock options to purchase Shares in the capital of the Company and/or RSUs that provide rights to acquire Shares in the capital of the Company. The time-based stock options vest over a five year period from the applicable grant date. The performance-based stock options vest and are exercisable upon the majority shareholders' achievement of certain internal rates of return. The stock options have a contractual life of 10 years.

For the 53 week period ended February 3, 2018, the Company granted 15,985 RSUs under the Legacy Equity Incentive Plan (52 week period ended January 28, 2017 – nil), which were all vested as of February 3, 2018. The Legacy Equity Incentive Plan was further amended at the closing of the IPO so that no additional awards could be made under the plan, but stock options and RSUs previously granted under the plan continue to remain outstanding in accordance with their terms and will continue to be governed by the provisions of the plan.

For the 53 week period ended February 3, 2018, the Company recognized share-based compensation expense of $713 (52 week period ended January 28, 2017 - $474) related to the Legacy Equity Incentive Plan, recorded in selling, general and administrative expenses with a corresponding increase to contributed surplus.

Legacy Employee Option Plan

On June 7, 2017, the Company adopted a new employee option plan (the "Legacy Employee Option Plan"). The Legacy Employee Option Plan is a part of a legacy compensation program pursuant to which certain employees and consultants of the Company or its subsidiaries were granted stock options to purchase Shares in the capital of the Company. The Legacy Employee Option Plan entitles eligible personnel to time-based stock options which commenced vesting on October 25, 2017 (date of IPO) and vest over a three-year period. The stock options have a contractual life of 11 years.

For the 53 week period ended February 3, 2018, the Company granted 497,986 options under the Legacy Employee Option Plan (52 week period ended January 28, 2017 – nil). The Legacy Employee Option Plan was further amended at the closing of the IPO so that no additional awards could be made under the plan, but stock options previously granted under the plan continue to remain outstanding in accordance with their terms and will continue to be governed by the provisions of the plan.

For the 53 week period ended February 3, 2018, the Company recognized share-based compensation expense of $313 (52 week period ended January 28, 2017 - $nil) related to the Legacy Employee Option Plan, recorded in selling, general and administrative expenses with a corresponding increase to contributed surplus.

Omnibus Plan

On October 25, 2017, in connection with the IPO, the Company established a new omnibus equity incentive plan (the "Omnibus Plan"). The Omnibus Plan provides eligible participants with compensation opportunities that will encourage ownership of the Shares, through the grants of stock options, RSUs and performance share units ("PSUs"). Time-based options vest over a period of up to five years. The performance-based options vest and are exercisable upon the majority shareholders' achievement of certain internal rates of return. The options have a contractual life of 10 years. Stock options, PSUs and RSUs issued by the Company under the Omnibus Plan are settled in Shares and are accounted for as equity-settled awards. The maximum number of Shares that are available for

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

issuance under the Omnibus Plan is 1,679,220, which represents approximately 4% of the issued and outstanding Shares.

The exercise price for stock options will be determined by the Board, which may not be less than the fair market value of a Share (being the closing price of a Share on the TSX on the last trading day immediately prior to the applicable date (the "Market Value") on the date the stock option is granted. Stock options will vest in accordance with the vesting schedule established on the grant date. Stock options must be exercised within a period fixed by the Board that may not exceed 10 years from the date of grant. The Omnibus Plan also provides for earlier expiration of stock options upon the occurrence of certain events, including the termination of a participant's employment.

A RSU is a right to acquire a Share following a period of continuous employment. PSUs are similar to RSUs, but their vesting is, in whole or in part, conditioned on the attainment of specified performance metrics as may be determined by the Board. The terms and conditions of grants of stock options, RSUs or PSUs, including the quantity, type of award, grant date, vesting conditions, vesting periods, settlement date and other terms and conditions with respect to the awards, will be set out in the participant's grant agreement. In the case of PSUs, the performance-related vesting conditions may include financial or operational performance of the Company, total shareholder return, individual performance criteria or other criteria as determined by the Board, which will be measured over a specified period.

For the 53 week period ended February 3, 2018, the Company granted 126,884 time-based stock options and 173,765 performance-based stock options under the Omnibus Plan (52 week period ended January 28, 2017 – nil). The time-based stock options vest over a three year period from the applicable grant date.

For the 53 week period ended February 3, 2018, the Company recognized share-based compensation expense of $166 (52 week period ended January 28, 2017 - $nil) related to the Omnibus Plan, recorded in selling, general and administrative expenses with a corresponding increase to contributed surplus.

Director Deferred Share Unit Plan

On October 25, 2017, the Company established a director deferred share unit plan (the "DSU Plan"). The DSU Plan encourages Company directors to increase their ownership in the Company by allowing them to elect to take all or a portion of their annual cash retainer in the form of deferred share units ("DSUs"). A DSU is a unit, equivalent to the value of a Share, credited to a director. Following the end of an eligible director's tenure as a member of the Board, the director will receive a payment in cash equal to the fair market value of the Shares represented by his or her DSUs. DSUs issued by the Company under the DSU Plan are settled in cash and are accounted for as cash-settled awards. No Shares are required to be reserved under the DSU Plan.

The fair value of the stock options issued in the year are estimated at the date of grant using the Black Scholes model and using the following assumptions:

	February 3, 2018	January 28, 2017
Expected volatility	31% - 40%	32% - 35%
Share price at grant date	\$6.26 - \$12.00	\$4.67 - \$5.37
Exercise price	\$6.26 - \$12.00	\$4.67 - \$5.37
Risk-free interest rate	1.36% - 2.08%	0.60% - 1.30%
Expected term	4.5 years – 10.5 years	5.5 years
Fair value per option	\$3.08 - \$4.30	\$0.76 - \$1.71

The computation of expected volatility was based on the historical volatility of comparable companies from a representative peer group selected based on industry. The risk-free interest rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant. The expected life estimate was determined by management based on a number of factors including vesting terms, exercise behaviour and the contractual term of the options.

13. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

(a) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company prepares cash flow forecasts to ensure it has sufficient funds through operations and access to debt facilities to meet its financial obligations.

The Company maintains Credit Facilities, as described in Note 9, allowing it to access funds for operations.

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

The contractual maturities of the Company's current and long-term financial liabilities as at February 3, 2018, excluding interest payments, are as follows:

			Remaining to maturity			
	Carrying amount	Contractual cash flows	Under 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities	18,306	18,306	18,306	–	–	–
Long-term debt	84,465	87,183	4,984	9,968	72,231	–
Finance lease obligation	894	863	338	491	34	–
	\$ 103,665	\$ 106,352	\$ 23,628	\$ 10,459	\$ 72,265	\$ –

(b) Currency risk

The Company is exposed to foreign exchange risk on foreign currency denominated financial assets and liabilities. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed pre-tax net income for the 53 week period ended February 3, 2018 by \$361 (52 week period ended January 28, 2017 – \$544), as a result of the revaluation on these financial assets and liabilities.

The Company purchases a significant amount of its merchandise in U.S. dollars and enters into forward contracts to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The Company has performed a sensitivity analysis on its forward contracts (designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed other comprehensive income for the 53 week period ended February 3, 2018 by \$3,212 (52 week period ended January 28, 2017 – \$nil), as a result of the revaluation on the Company's forward contracts.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments:

			Remaining to maturity			
	Carrying amount	Contractual cash flows	Under 1 year	1 - 3 years	3 - 5 years	More than 5 years
Derivative financial liabilities						
Derivative obligations	\$ 1,233	\$ 1,241	\$ 1,241	\$ –	\$ –	\$ –

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact earnings and the carrying amounts of the related hedging instruments:

			Remaining to maturity			
	Carrying amount	Contractual cash flows	Under 1 year	1 - 3 years	3 - 5 years	More than 5 years
Derivative financial liabilities						
Derivative obligations	$ 1,233	$ 1,241	$ 1,134	$ 107	$ –	$ –

(c) Interest rate risk

Market fluctuations in interest rates impact the Company's earnings with respect to cash borrowings under the Credit Facilities. A one percentage point change in the applicable interest rate would have changed pre-tax net income for the 53 week period ended February 3, 2018 by $1,130 (52 week period ended January 28, 2017 – $1,068).

(d) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash, loans receivable, and accounts receivable. The Company limits its exposure to credit risk with respect to cash by dealing primarily with large Canadian and U.S. financial institutions. The Company's accounts receivable consist primarily of receivables from business partners in the Partners and Other operating segment, which are settled in the following fiscal quarter.

As at February 3, 2018, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Loans receivable	$ 541
Accounts receivable, excluding allowance for doubtful accounts	6,467
	$ 7,008

(e) Capital management

The Company manages its capital and capital structure with the objective of ensuring that sufficient liquidity is available to support its financial obligations and to execute its strategic plans. The Company considers EBITDA as a measure of its ability to service its debt and meet other financial obligations as they become due.

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

EBITDA is defined as follows:

	February 3, 2018	January 28, 2017
Net income	$ 17,501	$ 8,185
Add back:		
Interest expense	5,728	6,112
Income taxes expense	6,902	3,366
Depreciation and amortization	10,886	9,803
EBITDA	$ 41,017	$ 27,466

The Company has financial and non-financial covenants under the Credit Facilities which allow for certain adjustments to EBITDA ("Adjusted EBITDA") for purposes of compliance with those covenants. The key financial covenant includes a consolidated debt to Adjusted EBITDA ratio, total debt to Adjusted EBITDA ratio, and fixed charge coverage ratio. As at February 3, 2018, the Company was in compliance with its covenants.

Adjusted EBITDA is determined as follows:

	February 3, 2018	January 28, 2017
EBITDA	$ 41,017	$ 27,466
Add:		
Transaction costs from business acquisition	137	315
Transaction costs from the Offering	3,733	–
Amortization of non-cash items from business acquisition	907	6,912
Legacy stock option expense	1,026	474
Non-cash rent expense from deferred lease costs	847	1,622
Impairment of fixed assets	1,281	987
Other	3,686	3,802
Adjusted EBITDA	$ 52,634	$ 41,578

14. Income taxes expense

The Company's income taxes expense comprises the following:

	February 3, 2018	January 28, 2017
Current income taxes expense	$ 6,655	$ 4,143
Deferred income taxes expense (recovery):		
Origination and reversal of temporary differences	247	(777)
Total income taxes expense	$ 6,902	$ 3,366

The effective income tax rate in the consolidated statement of net income and statement of comprehensive income was reported at rates different than the combined basic Canadian federal and provincial average statutory income tax rates for the following reasons:

	February 3, 2018	January 28, 2017
Combined basic federal and provincial average statutory rate	26.7%	26.7%
Non-deductible eligible capital balances	1.6%	2.4%
Effective tax rate	28.3%	29.1%

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

Movement in deferred tax liabilities (assets) balance:

	As at January 28, 2017	Expense (recovery)	Other comprehensive loss (income)	As at February 3, 2018
Acquisition costs	$ (73)	$ 42	$ –	$ (31)
Deferred lease costs	(375)	(262)	–	(637)
Fixed assets	1,583	(945)	–	638
Intangible assets and goodwill	20,113	1,412	–	21,525
Derivative obligations	–	–	(329)	(329)
	$ 21,248	$ 247	$ (329)	$ 21,166

	As at January 31, 2016	Measurement adjustment for provisional purchase price adjustment	Expense (recovery)	As at January 28, 2017
Inventory	$ 1,539	$ –	$ (1,539)	$ –
Acquisition costs	(16)	–	(57)	(73)
Deferred lease costs	62	–	(437)	(375)
Fixed assets	45	2,279	(741)	1,583
Intangible assets and goodwill	15,492	2,624	1,997	20,113
	$ 17,122	$ 4,903	$ (777)	$ 21,248

15. Commitments and contingencies

(a) Commitments

The Company leases various store locations, a head office, a distribution warehouse, a manufacturing facility and equipment under non-cancellable operating lease agreements. The leases are classified as operating leases since there is no transfer of risks and rewards inherent to ownership.

The leases have varying terms, escalation clauses and renewal rights. Minimum lease payments are recognized on a straight-line basis. Leases run for varying terms that generally do not exceed 10 years, with options to renew (if any) that do not exceed 5 years. The majority of real estate leases are net leases, which require additional payments for the cost of insurance, taxes, common area maintenance and utilities. Non-cancellable operating lease base rent payments are payable on a fiscal year end as follows:

2018	$ 24,312
2019	23,866
2020	21,231
2021	18,299
2022	16,094
Thereafter	52,470
	$ 156,272

(b) Contingencies

In the course of its business, the Company, from time to time, becomes involved in various claims and legal proceedings. In the opinion of management, all such claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the Company's financial position.

16. Personnel expenses

	February 3, 2018	January 28, 2017
Wages and salaries	$ 52,102	$ 45,776
Benefits and other incentives	11,431	9,686
	$ 63,533	$ 55,462

ROOTS CORPORATION
Notes to Consolidated Financial Statements
For the 53 week period ended February 3, 2018 and the 52 week period ended January 28, 2017

(In thousands of Canadian dollars, except per share amounts)

17. Related party transactions

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight Capital Partners, L.P. ("Searchlight") beneficially own approximately 47.7% of the total outstanding Shares and shareholders of a company formerly known as Roots Canada Ltd. through their wholly-owned entities (the "Founders") beneficially own approximately 12.0%. All transactions as described below are in the normal course of business and have been accounted for at their exchange value.

(a) Transactions with shareholders

The Company incurred the following costs in connection with transactions entered into with its principal shareholders:

	February 3, 2018	January 28, 2017
Rent(1)	$ 786	$ 796
Consulting fees(2)	267	567
Reimbursements(2)	35	148
Monitoring fees(3)	921	1,060

(1) The Company leases the building for their distribution centre and their manufacturing facility from companies that are under common control of the Founders. Figures include rent expenses as they relate to the lease of these properties. At the end of the period, the Company had outstanding letters of credit of $286 (January 28, 2017 — $410) for companies that are under common control of the Founders.

(2) Under a consulting agreement between the Company and the Founders, the Founders and their spouses were entitled to consulting fees, clothing allowances and reimbursement for certain travel, meals and phone expenses.

(3) Consists of monitoring fees and out-of-pocket expenses payable to Searchlight.

In connection with the IPO, the Company terminated certain agreements with related parties whereby, subsequent to the closing of the IPO, the Company is no longer required to pay consulting fees, monitoring fees, or reimbursements of expenses as previously incurred, as referred to above.

(In thousands of Canadian dollars, except per share amounts)

(b) Transactions with key management personnel

Key management of the Company includes members of the Board, as well as members of the Company's executive team. Key management personnel remuneration includes the following:

	February 3, 2018	January 28, 2017
Salaries, benefits and incentives, and consulting fees	$ 4,794	$ 4,393
Management share-based compensation	885	474
Director fees	186	–
	$ 5,865	$ 4,867

In April 2016, the Company issued and sold 53,548 Shares to a member of the Company's executive team.

In February 2016, a member of the Company's executive team purchased 214,193 Shares from Searchlight at a price of $4.67 per Share. The purchase was paid for using $500 in cash and a $500 loan from the Company. The $500 loan from the Company is to be repaid at the earlier of six years from the loan date and upon a liquidity sale of the Company. Interest accrues at a rate of 4% per annum and will be payable at the start of each calendar year following the date of the loan. Unpaid interest may be deemed paid by increasing the principal amount outstanding. As at February 3, 2018, the outstanding balance on the loan was $541 (January 28, 2017 – $520).

Corporate Information

BOARD OF DIRECTORS

Gregory David

Jim Gabel

Dale H. Lastman, C.M.

Richard P. Mavrinac

Joel Teitelbaum

Erol Uzumeri – Chairman

Eric Zinterhofer

EXECUTIVE OFFICERS

Jim Gabel
President & Chief Executive Officer

Jim Rudyk
Chief Financial Officer

Priscilla Schum
Chief Merchandising Officer

James Connell
Vice President, e-Commerce
& Customer Experience

Almira Cuizon
Vice President, Retail Operations

NON-EXECUTIVE SENIOR MANAGEMENT TEAM

Anne Hodkin
Vice President, Information Strategy & Systems

Kaleb Honsberger
Vice President, General Counsel

Alex Jones
Vice President, Real Estate

Karl Kowaleski
Vice President, Leather Factory

Michelle Lettner
Vice President, Human Resources

Melinda McDonald
Vice President, Wholesale & Business Development

Mangala Rao-D'sa
Vice President, Marketing

CORPORATE HEADQUARTERS

1400 Castlefield Avenue
Toronto, ON
M6B 4C4
Canada

SHARE INFORMATION

Shares in Roots Corporation are traded on the Toronto Stock Exchange (TSX) under the trading symbol "ROOT"

ANNUAL GENERAL MEETING

Friday, June 15, 2018, 10:00 a.m. eastern time
TMX Broadcast Centre
130 King Street West
Toronto, ON
Canada

AUDITOR

KPMG
Toronto, ON

TRANSFER AGENT

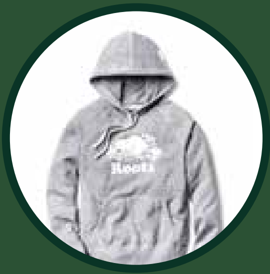
Computershare
Toronto, ON

LEGAL COUNSEL

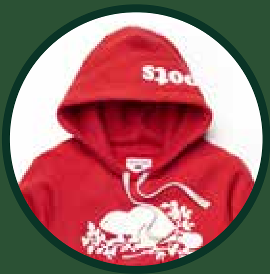
Kaleb Honsberger
General Counsel
Roots

INVESTOR RELATIONS

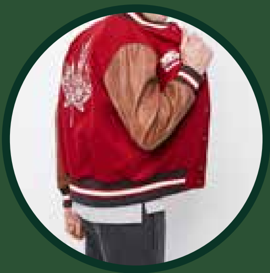
Kristen Davies
Roots
investors@roots.com
1-844-762-2343



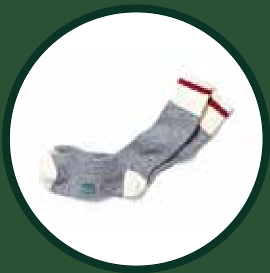
Salt & Pepper Sweats: First designed in 1979, this ultra-soft fleece is made with a special knit that's exclusively ours. Often imitated but never replicated, our Salt & Pepper has a one-of-a-kind look that cannot be recreated.



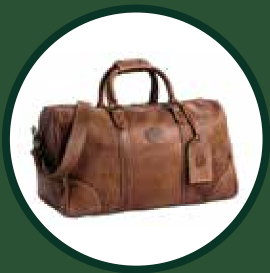
Roots Fleece: All of our sweats start with high-quality yarns. A unique blended cotton knit creates the much-loved look and feel of our exclusive fleece. Once the fabric is made, it's washed and brushed for added softness. Brushing the fabric loosens the underside of the knit, leaving that lasting, cozy feeling.



The Roots Award Jacket: First created in 1979, this iconic piece of our heritage has become an emblem of style and Canadian craftsmanship. Handcrafted in Canada, each jacket is made with our exclusive leathers and high quality, woollen melton. No detail is overlooked: every sleeve is cut by hand; our chenille crests are hand-trimmed; and our Roots logo is embroidered on for a signature finish.



Cabin Socks: A customer favourite from our Cabin Collection, which celebrates our early beginnings in a little cabin in Algonquin Park, Ontario, Canada. Inspired by our heritage and love of Canada, our Cabin socks have an iconic design that has become a timeless part of Roots style.



The Banff Bag: Handcrafted in Canada since 1988, our Banff Bag is a Roots classic. The perfect weekender bag, it is designed to be a versatile essential for wherever you're headed next.

Roots

investors.roots.com

Printed in Canada on recycled material

100% FSC www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C018101