# Annual Report

FISCAL 2019

OUR VISION

*To inspire the world to experience everyday adventures with comfort and style*

# ROOTS CORPORATION

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

(Fiscal Year Ended February 1, 2020)

The following Management's Discussion and Analysis ("**MD&A**") dated April 28, 2020 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 1, 2020. This MD&A should be read in conjunction with our audited consolidated financial statements for the fiscal year ended February 1, 2020, 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 2019**" are to our fiscal quarter for the 13-week period ended February 1, 2020, and all references to "**Q4 2018**" are to our fiscal quarter for the 13-week period ended February 2, 2019. All references in this MD&A to "**F2019**" are to the 52-week fiscal year ended February 1, 2020, all references to "**F2018**" are to the 52-week fiscal year ended February 2, 2019, and all references to "**F2017**" are to the 53-week fiscal year ended February 3, 2018.

On February 3, 2019, the Company adopted IFRS 16, *Leases* ("**IFRS 16**") using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. See "New Accounting Standards Adopted in the Year".

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 28, 2020.

Certain totals, subtotals, and percentages throughout this MD&A may not reconcile due to rounding.

**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 (loss) 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 (Loss)", and "Adjusted Net Income (Loss) per Share". This MD&A also refers to "Comparable Sales Growth (Decline)", 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 (loss) 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. Beginning in the first quarter of F2019 ("**Q1 2019**"), the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2019 and F2019 has been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. For additional information relating to the adoption of IFRS 16, see "New Accounting Standards Adopted in the Year". 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 (Loss)**” is defined as net income (loss), 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. Beginning in Q1 2019, the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted Net Income (Loss) for Q4 2019 and F2019 has been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. For additional information relating to the implementation of IFRS 16, see “New Accounting Standards Adopted in the Year”. We believe that Adjusted Net Income (Loss) is useful, to both management and investors, in assessing the underlying performance of our ongoing operations.

“**Adjusted Net Income (Loss) per Share**” is defined as Adjusted Net Income (Loss), divided by the weighted average common shares outstanding during the periods presented. Beginning in Q1 2019, the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted Net Income (Loss) per Share for Q4 2019 and F2019 has been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. For additional information relating to the implementation of IFRS 16, see “New Accounting Standards Adopted in the Year”. We believe that Adjusted Net Income (Loss) 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 (Decline)**” is a retail industry metric used to compare the percentage change in sales derived from mature stores and eCommerce, in a certain period, compared to the prior year sales from the same stores and eCommerce, over the same time period of the prior fiscal year. We believe Comparable Sales Growth (Decline) helps explain our sales growth (or decline) in established stores and eCommerce, which may not otherwise be apparent when relying solely on year-over-year sales comparisons. Comparable Sales Growth (Decline) is calculated based on sales (net of a provision for returns) from stores that have been opened for at least 52 weeks in our DTC segment, including eCommerce 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 (Decline) also excludes the impact of foreign currency fluctuations. Beginning in the second quarter of F2018 (“**Q2 2018**”), we changed our calculation methodology in order to be more consistent with other retailers by applying the prior year’s U.S. dollar to Canadian dollar exchange rates to both current year and prior year comparable sales to achieve a consistent basis for comparison. Prior to Q2 2018, Comparable Sales Growth (Decline) was calculated and presented using a U.S. dollar to Canadian dollar exchange rate of 1:1. The prior fiscal quarters presented in this MD&A have been recalculated and presented using this new constant currency calculation. Our Comparable Sales Growth (Decline) may be calculated differently compared to other companies.

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 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.

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 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 ("**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, 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, 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 as required under applicable securities laws in Canada. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

## Overview

Established in 1973, Roots is a premium outdoor lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products that embody a comfortable cabin-meets-city style including women's and men's apparel, leather goods, footwear, accessories and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As at February 1, 2020, we had 114 corporate retail stores in Canada, eight corporate retail stores in the United States, 114 partner-operated stores in Taiwan, 36 partner-operated stores in China, one partner-operated store in Hong Kong, and a global eCommerce platform, Roots.com. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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**").

The Company's common shares (the "**Shares**") are listed on the Toronto Stock Exchange ("**TSX**") under the trading symbol "ROOT".

## 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.

### *Brand Awareness*

The Roots brand is well-known in Canada and Taiwan, with locations also in the United States, mainland China and Hong Kong, as well as a growing awareness internationally. 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 focus on building our brand and strengthening our brand voice through innovative, impactful brand initiatives as well as delivering customer insight-driven product designs. In addition, we work to best position our brand and business globally by leveraging the operational investments that we have made and growing our omni-channel footprint.

### *Our Omni-Channel Business*

Our corporate retail stores and eCommerce platform are integrated, providing our customers with a seamless omni-channel shopping experience whether they are shopping online from a desktop or mobile device, or in one of our retail stores. This includes the ability to:

- order online and collect in-store;
- order in-store for home delivery;
- order online for home delivery;
- locate your desired store online;
- shop anytime, anywhere at roots.com;
- obtain in-store inventory display on roots.com; and
- return goods seamlessly via any channel.

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

As eCommerce continues to become a larger component to the growth of our omni-channel footprint, we depend on third-party logistics partners, such as Canada Post, to fulfill sales transactions with our customers in a dependable and timely manner. Changes in geographic coverage, service levels, capacity levels, and labour disruptions at our logistics partners may adversely affect our business and financial results. While Roots has a primary service relationship with Canada Post, we also work with other mail delivery services, providing alternative options as to mitigate the impact of a disruption to delivery services.

During F2019, we relocated from our legacy retail-only distribution centre and, separately, our third-party online order fulfillment and distribution facility to a single Roots-operated distribution centre (the "**DC Relocation Project**"). As of the third quarter of F2019 ("**Q3 2019**"), we completed the transition such that all retail store distribution and eCommerce fulfillment is now completed at this single Roots-operated facility. Being able to fulfill centrally will enable us to more effectively scale and execute our omni-channel strategy. Conversely, any failure of our distribution centre to meet the demands of the Company or keep pace with our growth could have a material adverse effect on our business and financial results.

### *Our International Operating Partner*

Much of the success of our international 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 multi-channel strategy and our ability to support our partner in this growth will impact the performance of our business. Our partner's sales are also impacted by shifts in economic conditions in the regions in which it operates that are beyond our and our partner's control, including: employment rates; consumer confidence levels; consumer debt; and interest rates, all of which could limit the disposable income and discretionary spending levels of consumers.

### *Product Development and Merchandising*

Our sales are driven primarily from major Canadian markets in fall and winter months. However, we are not defined by one product, season, geography, or demographic. With nearly five decades of product leadership, our product range is diversified 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.

We continue to execute our broader merchandising strategy of bringing better products and assortments to our diverse and global consumer base. Through our more formalized and analysis-driven approach to product line development and our distribution channel upgrades, we are better able to deliver coordinated collections across all lines of products, bringing the right products through the right channels to our broadening base of customers.

Our business is affected by our ability to continue to develop products that resonate with consumers, and we are working to accelerate our product development as we continue to introduce products to mitigate the seasonal nature of our business (as further described below) 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. Commencing in F2017, 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 | 17% |
| Third fiscal quarter | 26% |
| Fourth fiscal quarter | 42% |
| Annual Total | 100% |

### *Weather*

Our corporate retail stores could be adversely impacted by extreme weather conditions in regions in which they operate. For example, severe or abnormal snowfall, rainstorms, ice storms, or other adverse weather conditions could decrease customer traffic in our stores and could adversely impact our results. Our omni-channel presence helps to mitigate the impact of extreme weather conditions as customers are able to order products through our eCommerce platform. Furthermore, we are subject to risks relating to unseasonable weather patterns, such as warmer temperatures in the fall and winter seasons and cooler temperatures in the spring and summer seasons, which could cause our inventory to be incompatible with prevailing weather conditions and could diminish demand for seasonal merchandise.

### *Novel Coronavirus*

In December 2019, the novel coronavirus ("COVID-19") surfaced in Wuhan, China, spreading quickly to create what was then characterized as a global emergency. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak, which was subsequently characterized as a pandemic on March 11, 2020, leading many countries to take drastic measures to manage the spread of the virus. The Company has since temporarily closed all its stores in Canada and the United States and has temporarily closed or greatly reduced capacity at other facilities in its supply chain and distribution channels (see "Subsequent Events"). These are unprecedented times, and the impacts of the outbreak are unknown and rapidly evolving. While most of these effects are expected to be temporary, the duration of the business disruption and the related financial impact cannot be reasonably estimated at this time. It is possible that our consolidated financial results in fiscal 2020 will be materially negatively impacted by this event. Based on events and circumstances known to us to date, we believe that:

- Customer demand will be the most significant issue amidst the uncertainty in the global economy, negatively impacting our corporate retail stores, as well as the businesses of our international operating partner and our North American wholesale and retail partners;

- While eCommerce sales should fare better than retail, we may nevertheless suffer significant sales losses as overall customer demand and consumer spending is expected to decline significantly in response to COVID-19 and the related global economic impacts; and

- We may also face challenges through our supply chain network if there are disruptions in service at our distribution centre, third-party logistics fulfillment partners, suppliers, manufacturing facilities or logistics providers.

While the full-extent that the impact that COVID-19 will have on the Company's business plans remain unclear, we believe that there are cost reductions and liquidity management strategies that we can implement to mitigate these risks. At this point, we also expect to have access to borrowing and other forms of relief support that may be made available to businesses impacted by this pandemic. However, as the future impact of the outbreak is highly uncertain and cannot be predicted, there can be no assurance that the outbreak will not have a material adverse impact on the future financial results of the Company. The extent of the impact will depend on future developments, including actions taken to contain COVID-19.

### *Consumer Trends*

Our success largely depends on our ability to anticipate and respond to shifts in consumer trends, demands and preferences in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to adequately respond to changing consumer trends, our sales could be adversely impacted, or we could experience higher inventory markdowns which could decrease our profitability. This is mitigated by our focus on continuous product development to create products that resonate with our consumers, our diverse product range across multiple categories, and the fact that our enduring icons have remained favourites of our customers for decades and continue to be customer favourites today. Our sales are also impacted by shifts in economic conditions that are beyond our control, such as: employment rates; consumer confidence levels; consumer debt; and interest rates, all of which could limit the disposable income and discretionary spending levels of consumers.

### 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 eCommerce. 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 includes royalties earned through the licensing of our brand to select manufacturing and wholesale distribution 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 87.2% and 12.8% of our sales, respectively, in F2019 (F2018 – 86.3% and 13.7% of our sales, respectively).

## Summary of Financial Performance

We refer the reader to the sections entitled "Components of our Results of Operations", "Factors Affecting our Performance" 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. Unless otherwise indicated, financial information includes the impact of the implementation of IFRS 16.

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

| **CAD $000s (except per share data)** | **Q4 2019** | **Q4 2018** | **F2019** | **F2018** | **F2017** |
|---|---|---|---|---|---|
| **Statement of Net Income (Loss) Data:** | | | | | |
| Sales | 127,453 | 130,823 | 329,865 | 329,028 | 326,057 |
| Gross profit | 69,290 | 78,345 | 176,189 | 188,490 | 181,998 |
| Gross margin | 54.4% | 59.9% | 53.4% | 57.3% | 55.8% |
| Selling, general and administrative expenses (1) | 69,445 | 51,776 | 188,308 | 166,790 | 151,867 |
| Goodwill impairment | 44,799 | – | 44,799 | – | – |
| Net income (loss) | (44,577) | 18,276 | (62,029) | 11,400 | 17,501 |
| Basic earnings (loss) per share | $(1.06) | $0.43 | $(1.47) | $0.27 | $0.42 |
| Diluted earnings (loss) per share | $(1.06) | $0.43 | $(1.47) | $0.27 | $0.41 |
| **Non-IFRS Measures and Other Performance Measures:** | | | | | |
| Corporate retail stores, end of period | 122 | 121 | 122 | 121 | 119 |
| Comparable Sales Growth (Decline) (2) | (1.8)% | 3.1% | (0.3)% | (1.3)% | 12.2% |
| Adjusted DTC Gross Profit (2) | 65,957 | 74,574 | 162,630 | 173,816 | 168,636 |
| Adjusted DTC Gross Margin (2) | 55.4% | 61.8% | 56.5% | 61.2% | 59.4% |
| Adjusted EBITDA (2) | 26,053 | 34,784 | 26,068 | 41,903 | 52,634 |
| Adjusted Net Income (2) | 13,269 | 22,345 | 4,018 | 20,179 | 29,137 |
| Adjusted Net Income per Share (2) | $0.31 | $0.53 | $0.10 | $0.48 | $0.69 |

Note:

(1) Excluding the impacts of IFRS 16 and non-cash fixed asset and ROU asset impairments, selling, general and administrative expenses were: $48,245 in Q4 2019, $50,401 in Q4 2018, $170,536 in F2019, $165,415 in F2018, and $150,586 in F2017.See "Results of Operations" for further discussion on year-over-year variances on selling, general and administrative expenses.

(2) Comparable Sales Growth (Decline), 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 2019 Compared to Q4 2018***

- Total sales decreased by $3,370, or 2.6%, to $127,453 in Q4 2019, from $130,823 in Q4 2018.
    - DTC sales decreased by $1,628, or 1.3%, in Q4 2019, compared to Q4 2018.
    - Partners and Other sales decreased by $1,742, or 17.2%, in Q4 2019, compared to Q4 2018.
- Comparable Sales Decline(1) was (1.8)% for Q4 2019 as compared to Comparable Sales Growth(1) of 3.1% for Q4 2018.
- Gross profit decreased by $9,055, or 11.6%, to $69,290 in Q4 2019, from $78,345 in Q4 2018.
    - DTC gross profit decreased by $8,914, or 12.0%, to $65,660 in Q4 2019, and as a percentage of sales ("**DTC gross margin**") decreased to 55.2% in Q4 2019, from 61.8% in Q4 2018.
    - Adjusted DTC Gross Profit(1) decreased by $8,617, or 11.6%, to $65,957 in Q4 2019, and Adjusted DTC Gross Margin(1) decreased to 55.4% in Q4 2019, from 61.8% in Q4 2018.
- Recorded fixed asset impairment of $19,183 and goodwill impairment of $44,799, compared to fixed asset impairment of $1,375 and goodwill impairment of $nil in Q4 2018.
- Selling, general and administrative expenses ("**SG&A expenses**") increased by $17,669, or 34.1%, to $69,445 in Q4 2019, from $51,776 in Q4 2018.
- Adjusted EBITDA(1) decreased by $8,731, or 25.1%, to $26,053 in Q4 2019, from $34,784 in Q4 2018.
- Net income (loss) decreased by $62,853, or 343.9%, to a net loss of $(44,577) in Q4 2019, from net income of $18,276 in Q4 2018.
- Adjusted Net Income(1) decreased by $9,076, or 40.6%, to $13,269 in Q4 2019, from $22,345 in Q4 2018.
- Basic earnings (loss) per Share decreased to $(1.06) in Q4 2019, from $0.43 in Q4 2018.
- Adjusted Net Income per Share(1) decreased to $0.31 in Q4 2019, from $0.53 in Q4 2018.

***Selected Financial Results for F2019 Compared to F2018***

- Total sales increased by $837, or 0.3%, to $329,865 in F2019, from $329,028 in F2018.
    - DTC sales increased by $3,906, or 1.4%, compared to F2018.
    - Partners and Other sales decreased by $3,069, or 6.8%, compared to F2018.
- Comparable Sales Growth (Decline)(1) was (0.3)% for F2019 as compared to (1.3)% for F2018.

- Gross profit decreased by $12,301, or 6.5%, to $176,189 in F2019, from $188,490 in F2018.
    - DTC gross profit decreased by $12,026, or 6.9%, to $161,790, and DTC gross margin decreased to 56.2% in F2019, from 61.2% in F2018.
    - Adjusted DTC Gross Profit(1) decreased by $11,186, or 6.4%, to $162,630 in F2019, and Adjusted DTC Gross Margin(1) decreased to 56.5% in F2019, from 61.2% in F2018.
- SG&A expenses increased by $21,518, or 12.9%, to $188,308 in F2019, from $166,790 in F2018.
- Adjusted EBITDA(1) decreased by $15,835, or 37.8%, to $26,068 in F2019, from $41,903 in F2018. Adjusted EBITDA was 7.9% of sales in F2019, decreasing from 12.7% of sales in F2018.
- Net income (loss) decreased by $73,429, or 644.1%, to a net loss of $(62,029) in F2019, from net income of $11,400 in F2018.
- Adjusted Net Income(1) decreased by $16,161, or 80.1%, to $4,018 in F2019, from $20,179 in F2018. Adjusted Net Income was 1.2% of sales in F2019, decreasing from 6.1% of sales in F2018.
- Basic earnings (loss) per Share decreased to $(1.47) in F2019 from $0.27 in F2018.
- Adjusted Net Income per Share(1) decreased to $0.10 in F2019 from $0.48 in F2018.

### *Key Operational Developments*

*Real Estate*

During F2019, in North America, we opened three new corporate retail stores, converted two pop-up locations into permanent corporate retail stores, relocated four corporate retail stores, completed major renovations of two of our existing corporate retail stores, and closed four corporate retail stores as we continue to optimize our real estate portfolio.

In particular, during Q4 2019, we:

- opened a new corporate retail store in Tyson's Corner in Tysons, Virginia, on November 7, 2019;
- closed our Milton store in Milton, Ontario; and
- closed our Bower Place pop-up location in Red Deer, Alberta.

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Note:

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

The following table summarizes the change in our corporate retail store count for the periods indicated, excluding various pop-up locations.

| | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| Number of stores, beginning of period | 122 | 125 | 121 | 119 |
| New stores | 1 | – | 5 | 10 |
| Closed stores | 1 | 4 | 4 | 8 |
| **Number of stores, end of period** | **122** | **121** | **122** | **121** |
| Stores renovated or relocated | – | 1 | 6 | 10 |

The seven U.S. stores opened in the last three years include two stores in the Greater Boston Area, three in the Washington D.C. area, one in Chicago and a pop-up location in Woodbury Commons, New York (together, the "**New U.S. stores**"). In aggregate, the Company incurred an Adjusted EBITDA loss of six million dollars in F2019 pertaining to the New U.S. stores, primarily driven by below-expectation sales. During F2019, the Company also recorded a non-cash fixed asset impairment charge of $12,738 pertaining to the New U.S. stores.

In part, due to the magnitude of the Adjusted EBITDA loss and the discretionary retail environment having become increasingly challenging as a result of COVID-19, following year-end the Board determined to liquidate its U.S. subsidiary, Roots USA Corporation through a Chapter 7 bankruptcy filing. The filing will result in the permanent closure of the New U.S. stores. See also "Subsequent Events".

*International Partnership*

During F2019, our international partner opened 11 partner-operated stores in China, four of which opened in Q4 2019. In addition, our international partner opened one partner-operated store in Hong Kong in Q1 2019. Through continued efforts to optimize its overall store portfolio, our partner chose not to renew the lease for three stores in Taiwan and 12 stores in China during F2019. At the end of Q4 2019, we had 114 partner-operated stores in Taiwan, 36 partner-operated stores in China, and one partner-operated store in Hong Kong.

## Components of our Results of Operations

In assessing our results of operations, 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 eCommerce operations. Sales to customers through our corporate retail stores are recognized at the time of purchase, net of a provision for returns. eCommerce 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 eCommerce 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 are recognized when the performance obligations of goods delivery have been 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, at the later of (i) sales of licensed goods as reported by our international partner and other third-party licensees, and (ii) when all performance obligations pertaining to the royalty have been satisfied.

### *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 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. As a result of our transition to a single Roots-operated distribution centre, in connection with the DC Relocation Project, commencing in Q3 2019 cost of goods sold also includes variable distribution centre costs incurred to fulfill our eCommerce orders. Previously, eCommerce order fulfillment costs, incurred through our third-party online order fulfillment and distribution facility, was recorded in SG&A.

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. In F2017, 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, depreciation of store and eCommerce assets, and costs incurred to support the relationships with our retail partners, wholesale distributors, and licensees. SG&A expenses also include our marketing and brand investment activities, and the corporate infrastructure required to support our ongoing business.

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 substantial portion of these costs are relatively fixed.

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 rent and depreciation and amortization expenses for all office support assets and intangible assets.

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 interest accrued on our lease liabilities and our Credit Facilities (as defined below). 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 27-28%, 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 F2019 and F2018 has been derived from our Annual Financial Statements. Unless otherwise indicated, financial information includes the impact of the implementation of IFRS 16. The selected consolidated financial information set out below for Q4 2019 and Q4 2018 is unaudited.

| CAD $000s | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| **Sales** | **127,453** | **130,823** | **329,865** | **329,028** |
| Cost of goods sold | 58,163 | 52,478 | 153,676 | 140,538 |
| **Gross Profit** | **69,290** | **78,345** | **176,189** | **188,490** |
| Selling, general and administrative expenses | 69,445 | 51,776 | 188,308 | 166,790 |
| Goodwill impairment | 44,799 | – | 44,799 | – |
| **Income (loss) before interest expense and income taxes expense (recovery)** | **(44,954)** | **26,569** | **(56,918)** | **21,700** |
| Interest expense | 3,962 | 1,435 | 15,567 | 5,171 |
| **Income (loss) before taxes** | **(48,916)** | **25,134** | **(72,485)** | **16,529** |
| Income taxes expense (recovery) | (4,339) | 6,858 | (10,456) | 5,129 |
| **Net income (loss)** | **(44,577)** | **18,276** | **(62,029)** | **11,400** |
| Basic earnings (loss) per Share | $(1.06) | $0.43 | $(1.47) | $0.27 |

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

| Consolidated Statement of Financial Position Data:<br>CAD $000s (except per Share amounts) | As at February 1, 2020 | As at February 2, 2019 |
|---|---|---|
| Current assets[(1)] | $53,677 | $64,960 |
| Non-current assets[(1)] | 387,097 | 316,514 |
| Current liabilities[(1)] | 67,208 | 51,627 |
| Non-current liabilities[(1)] | 223,060 | 114,783 |

Note:

(1) The impact of IFRS 16 on F2019 balance sheet figures was a decrease to current assets of $3,182 resulting from a reclassification of lease inducements receivable from accounts receivable into lease liability, an increase to non-current assets of $128,342 resulting from right-of-use ("**ROU**") assets recognized, as well as an increase to current liabilities of $26,568, and an increase to non-current liabilities of $106,081 resulting from lease liabilities recognized.

## Results of Operations

## Analysis of Results for Q4 2019 to Q4 2018 and F2019 to F2018

The following section provides an overview of our financial performance during Q4 2019 compared to Q4 2018 and during F2019 compared to F2018.

### *Sales*

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

| CAD $000s | Q4 2019 | Q4 2018 | % Change | F2019 | F2018 | % Change |
|---|---|---|---|---|---|---|
| DTC | 119,050 | 120,678 | (1.3)% | 287,762 | 283,856 | 1.4% |
| Partners and Other | 8,403 | 10,145 | (17.2)% | 42,103 | 45,172 | (6.8)% |
| **Total Sales** | **127,453** | **130,823** | **(2.6)%** | **329,865** | **329,028** | **0.3%** |

Total sales were $127,453 in Q4 2019 as compared to $130,823 in Q4 2018, representing a decrease of $3,370, or 2.6%.

DTC sales decreased $1,628, or 1.3%, in Q4 2019 as compared to Q4 2018. The year-over-year decline in Q4 2019 DTC sales was primarily driven by a Comparable Sales Decline of (1.8)%, partially offset by the opening of one net new store. The Comparable Sales Decline for Q4 2019 was predominantly a result of lower in-store traffic, partially offset, by growth in eCommerce sales.

Sales in the Partners and Other segment decreased by $1,742, or 17.2%, in Q4 2019 as compared to Q4 2018, primarily driven by the impact of macroeconomic and geopolitical headwinds affecting the Asian markets where our international partner operates.

Total sales were $329,865 in F2019 as compared to $329,028 in F2018, representing an increase of $837, or 0.3%.

F2019 sales in the DTC segment increased by $3,906, or 1.4%, as compared to F2018. The year-over-year growth in F2019 DTC sales was driven by the opening of one net new store in F2019 as well as the full-year sales benefit from stores opened in the middle of F2018, partially offset by a Comparable Sales Decline of (0.3)%. The Comparable Sales Decline for F2019 was predominantly a result of lower in-store traffic and a delay in the flow of product as we transitioned to our new integrated distribution centre, partially offset, by growth in eCommerce sales.

Sales in the Partners and Other segment decreased by $3,069, or 6.8%, during F2019 as compared to F2018, primarily driven by the impact of macroeconomic and geopolitical headwinds affecting the Asian markets where our international partner operates. The decrease in sales in the Partners and Other segment, largely denominated in U.S. dollars, also includes the impact of a $400 foreign exchange benefit relative to the previous fiscal year. Excluding foreign exchange impacts, F2019 sales in the Partners and Other segment would have decreased by $3,469, or 7.7%, as compared to F2018.

### *Gross Profit*

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

| CAD $000s | Q4 2019 | Q4 2018 | % Change | F2019 | F2018 | % Change |
|---|---|---|---|---|---|---|
| DTC | 65,660 | 74,574 | (12.0)% | 161,790 | 173,816 | (6.9)% |
| Partners and Other | 3,630 | 3,771 | (3.7)% | 14,399 | 14,674 | (1.9)% |
| **Total Gross Profit** | **69,290** | **78,345** | **(11.6)%** | **176,189** | **188,490** | **(6.5)%** |

| Gross profit as a percentage of sales | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| DTC | 55.2% | 61.8% | 56.2% | 61.2% |
| Partners and Other | 43.2% | 37.2% | 34.2% | 32.5% |
| **Total Gross Margin** | **54.4%** | **59.9%** | **53.4%** | **57.3%** |

Gross profit was $69,290 in Q4 2019, as compared to $78,345 in Q4 2018, representing a decrease of $9,055, or 11.6%. In F2019, gross profit was $176,189 as compared to $188,490 in F2018, representing a decrease of $12,301, or 6.5%.

Gross profit in the DTC segment decreased $8,914, or 12.0%, in Q4 2019 as compared to Q4 2018. During F2019, gross profit in the DTC segment decreased by $12,026, or 6.9%, as compared to F2018. The decrease in gross profit in the DTC segment was primarily driven by a lower gross margin. Gross margin was 55.2% in Q4 2019, as compared to 61.8% in Q4 2018. In F2019, gross margin was 56.2% as compared to 61.2% in F2018. During Q4 2019, the Company recorded an inventory write-off of $1,607, compared to $nil in Q4 2018. Excluding the non-cash inventory write-off, gross margin was 56.5% and 56.8% in Q4 2019 and F2019, respectively. The decrease in gross margin primarily reflects additional costs related to the Company's move to its new integrated distribution centre, the negative impact on full-price selling as a result of distribution centre delays, the Company's decision to extend its holiday promotional sales period, as well as foreign exchange headwinds. In addition, the Company reclassified certain costs (into cost of goods sold from selling, general and administrative expenses) with the transition to in-house fulfillment of all eCommerce orders.

Gross profit in the Partners and Other segment decreased by $141, or 3.7%, in Q4 2019 as compared to Q4 2018. During F2019, gross profit in the Partners and Other segment decreased by $275, or 1.9%, as compared to F2018. The decrease in gross profit in the Partners and Other segment was primarily driven by reduced purchases by our international operating partner due to a decrease in sales in Asia, partially offset by a higher segment gross margin. The increase in gross margin in the Partners and Other segment was attributable to a lower mix of wholesale sales to our international operating partner, which generated a lower margin than our earned royalties when the products sell through to their retail customers.

### *Selling, General and Administrative Expenses*

SG&A expenses were $69,445 in Q4 2019 as compared to $51,776 in Q4 2018, representing an increase of $17,669, or 34.1%. In Q4 2019, the Company recorded a $19,183 non-cash fixed asset impairment, of which $12,738 was related to its New U.S. stores, compared to $1.4 million in Q4 2018. Excluding the impact of IFRS 16 and non-cash fixed asset and ROU asset impairments, SG&A expenses were $48,245 in Q4 2019 as compared to $50,401 in Q4 2018, representing a decrease of $2,156, or 4.3%. This reduction in SG&A was a result of temporary vacancies in certain senior leadership roles, the shift of certain eCommerce costs from SG&A expenses to gross margin in connection with the transition to in-house fulfillment at our new integrated distribution centre, and store wage optimization. These decreases were partially offset by incremental costs to support a larger total store fleet square footage and a larger distribution centre, one-time distribution centre transition costs and one-time severance costs.

SG&A expenses were $188,308 during F2019 as compared to $166,790 in F2018, representing an increase of $21,528, or 12.9%. Excluding the impact of IFRS 16 and non-cash fixed asset and ROU asset impairments, SG&A expenses were $170,536 during F2019 as compared to $165,416 in F2018, representing an increase of $5,120, or 3.1%. SG&A expenses in F2019 include incremental costs to support a larger total store fleet square footage and a larger distribution centre, one-time distribution centre transition costs, one-time severance costs and costs to support higher overall omni-channel sales. These areas of increased expense were partially offset by savings related to temporary vacancies in certain senior leadership roles, the shift of certain eCommerce costs from SG&A expenses to gross margin in connection with the transition to in-house fulfillment at our new integrated distribution centre, and store wage optimization.

### *Goodwill Impairment*

During Q4 2019 and F2019, the Company recorded a goodwill impairment of $44,799, as compared to $nil in Q4 2018 and F2018. The goodwill balance was previously recognized as a result of the Company's acquisition of assets from Roots Canada Ltd., Roots U.S.A., Inc., Roots America L.P., entities controlled by our founders Michael Budman and Don Green, and all of the issued and outstanding shares of Roots International ULC, finalized on December 1, 2015. The Company performs an annual impairment assessment of goodwill by comparing the carrying value of each cash generating unit ("**CGU**") group to the recoverable amount of the CGU group. The recoverable amount is based on the higher of the fair value less cost to sell ("**FVLCS**") and the value-in-use ("**VIU**"). The goodwill impairment pertains to the DTC CGU and is driven by more conservative forward-looking growth assumptions, as a result of recent trends and shortfalls against past projections.

### *Interest Expense*

Interest expense was $3,962 in Q4 2019 as compared to $1,435 in Q4 2018, representing an increase of $2,527, or 176.1%. The increase in interest expense includes $2,261 of interest recognized in Q4 2019 on the lease liabilities under IFRS 16. Excluding the impact of IFRS 16, interest expense would have increased by $266, or 18.5%, as compared to Q4 2018.

During F2019, interest expense was $15,567 as compared to $5,171 in F2018, representing an increase of $10,396, or 201.0%. The increase in interest expense includes $9,048 of interest recognized in F2019 on the lease liabilities under IFRS 16. Excluding the impact of IFRS 16, interest expense would have increased by $1,348, or 26.1%, as compared to F2018.

The increase in interest expense in Q4 2019 and F2019, excluding the impact of IFRS 16, related primarily to higher year-over-year drawings on our Revolving Credit Facility (as defined below), partially offset by lower debt from the repayment of the Term Credit Facility (as defined below). See “Indebtedness”.

### *Income Taxes Expense (Recovery)*

Income taxes expense (recovery) was $(4,339) in Q4 2019 as compared to $6,858 in Q4 2018, representing a decrease of $11,197, or 163.3%. The effective tax expense (recovery) rate for Q4 2019 and Q4 2018 was (8.9)% and 27.3%, respectively. During F2019, income taxes expense (recovery) was $(10,456) as compared to $5,129 in F2018, representing a decrease of $15,585, or 303.9%. The effective income taxes expense (recovery) rate during F2019 was (14.4)% as compared to the effective tax rate of 31.0% in F2018.

The effective income taxes recovery rate in Q4 2019 and F2019 was driven by the unrecognized deferred tax assets on deductible temporary differences and tax losses, expenses related to goodwill impairment and meals and entertainment, partially offset by non-taxable income associated with the cancellation of stock options and restricted share units (“**RSUs**”) granted to employees and executive officers of the Company who departed during F2019.

### *Net Income (Loss)*

Net loss was $(44,577) in Q4 2019 as compared to net income of $18,276 in Q4 2018, representing a decrease of $62,853. During F2019, net loss was $(62,029) as compared to net income of $11,400 in F2018, representing a decrease of $73,429. The decrease in net income (loss) 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. Unless otherwise indicated, financial information includes the impact of the implementation of IFRS 16. This unaudited quarterly information, other than Comparable Sales Growth (Decline), 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 2019** | **Q3 2019** | **Q2 2019** | **Q1 2019** | **Q4 2018** | **Q3 2018** | **Q2 2018** | **Q1 2018** |
|---|---|---|---|---|---|---|---|---|
| **Sales** | **127,453** | **86,377** | **61,683** | **54,352** | **130,823** | **86,979** | **60,197** | **51,029** |
| **Net Income (Loss)** . . . . . . . . . . . . . . . | **(44,577)** | **1,969** | **(9,653)** | **(9,768)** | **18,276** | **2,795** | **(4,081)** | **(5,590)** |
| **Net Earnings (Loss) per Share:** | | | | | | | | |
| Basic earnings (loss) per Share. . . . | $ (1.06) | $0.05 | $(0.23) | $(0.23) | $ 0.43 | $ 0.07 | $(0.10) | $ (0.13) |
| Diluted earnings (loss) per Share . . | $ (1.06) | $0.05 | $(0.23) | $(0.23) | $ 0.43 | $ 0.07 | $(0.10) | $ (0.13) |
| **Other Performance Measures** | | | | | | | | |
| Comparable Sales Growth (Decline)[1]. . . . . . . . . . . . . . . . . . . . . | (1.8)% | 3.0% | (2.9)% | 1.5% | 3.1% | (13.4)% | 1.1% | 6.8% |
| Corporate retail stores, end of period | 122 | 122 | 124 | 121 | 121 | 125 | 122 | 120 |

Note:

(1) Prior to Q2 2018, Comparable Sales Growth (Decline) was calculated and presented using a U.S. dollar to Canadian dollar exchange rate of 1:1. These prior fiscal quarters have been recalculated and presented using the new constant currency calculation. See “Cautionary Note Regarding Non-IFRS Measures and Industry Metrics”.

### 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 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| Adjusted DTC Gross Profit | 65,957 | 74,574 | 162,630 | 173,816 |
| Adjusted DTC Gross Margin | 55.4% | 61.8% | 56.5% | 61.2% |
| EBITDA[(1)] | (34,448) | 30,374 | (17,312) | 34,635 |
| Adjusted EBITDA | 26,053 | 34,784 | 26,068 | 41,903 |
| Adjusted Net Income | 13,269 | 22,345 | 4,018 | 20,179 |
| Adjusted Net Income per Share | $0.31 | $0.53 | $0.10 | $0.48 |

Note:

(1) The impact of IFRS 16 on EBITDA in Q4 2019 and F2019 represented an increase of $4,226 and $26,132, respectively, as a result of rent payments no longer being recorded through SG&A expense, net of impairments on ROU assets.

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

### Reconciliation of Non-IFRS Measures

The tables below reconciles DTC gross profit to Adjusted DTC Gross Profit, and net income (loss) to EBITDA, Adjusted EBITDA, and Adjusted Net Income for the periods presented:

| CAD $000s | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| **DTC gross profit** | **65,660** | **74,574** | **161,790** | **173,816** |
| *Add the impact of:* | | | | |
| COGS: DC Relocation Project (a) | 297 | – | 840 | – |
| **DTC Adjusted Gross Profit** | **65,957** | **74,574** | **162,630** | **173,816** |

| CAD $000s | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| **Net income (loss)** | **(44,577)** | **18,276** | **(62,029)** | **11,400** |
| *Add the impact of:* | | | | |
| Interest expense (b) | 3,962 | 1,435 | 15,567 | 5,171 |
| Income taxes expense (recovery) (b) | (4,339) | 6,858 | (10,456) | 5,129 |
| Depreciation and amortization (b) | 10,506 | 3,805 | 39,606 | 12,935 |
| **EBITDA** | **(34,448)** | **30,374** | **(17,312)** | **34,635** |
| *Adjust for the impact of:* | | | | |
| COGS: DC Relocation Project (a) | 297 | – | 840 | – |
| COGS: P&O Duty Reimbursement (c) | – | – | 175 | – |
| SG&A: IFRS 16: Rental expense excluded from net income (loss) as a result of IFRS 16 (b) | (7,441) | – | (29,347) | – |
| SG&A: IFRS 16: Impairment of ROU assets (b) | 3,215 | – | 3,215 | – |
| SG&A: Purchase accounting adjustments (d) | 58 | 141 | 582 | 548 |
| SG&A: IPO transaction costs (e) | – | – | – | 160 |
| SG&A: Fixed asset impairment (f) | 19,183 | 1,375 | 19,183 | 1,375 |
| SG&A: Goodwill impairment (g) | 44,799 | – | 44,799 | – |
| SG&A: Stock option expense (h) | (1,045) | 522 | (518) | 2,507 |
| SG&A: DC Relocation Project (a) | – | 623 | 1,648 | 1,270 |
| SG&A: Shipping costs related to Canada Post strike (i) | – | 553 | – | 553 |
| SG&A: Changes in key personnel (j) | 1,165 | – | 2,339 | – |
| SG&A: Other non-recurring items (k) | 270 | 1,248 | 464 | 1,472 |
| SG&A: Non-cash rent adjustments (l) | – | (52) | – | (617) |
| **Adjusted EBITDA[(n)]** | **26,053** | **34,784** | **26,068** | **41,903** |

| CAD $000s | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| **Net income (loss)** | **(44,577)** | **18,276** | **(62,029)** | **11,400** |
| *Reverse the impact of IFRS 16:* | | | | |
| Rent expense excluded from net loss (b) | (7,441) | – | (29,347) | – |
| Depreciation on ROU assets (b) | 6,244 | – | 24,721 | – |
| Impairment on ROU assets (b) | 3,215 | – | 3,215 | – |
| Interest on lease liabilities (b) | 2,261 | – | 9,048 | – |
| Deferred tax impact (b) | (519) | – | (1,414) | – |
| Total IFRS 16 impacts reversed | 3,760 | – | 6,223 | – |
| *Add the impact of:* | | | | |
| COGS: DC Relocation Project (a) | 297 | – | 840 | – |
| COGS: P&O Duty Reimbursement (c) | – | – | 175 | – |
| SG&A: Purchase accounting adjustments (d) | 58 | 141 | 582 | 548 |
| SG&A: IPO transaction costs (e) | – | – | – | 160 |
| SG&A: Fixed asset impairment (f) | 19,183 | 1,375 | 19,183 | 1,375 |
| SG&A: Goodwill impairment (g) | 44,799 | – | 44,799 | – |
| SG&A: Stock option expense (h) | (1,045) | 522 | (518) | 2,507 |
| SG&A: DC Relocation Project (a) | – | 623 | 1,648 | 1,270 |
| SG&A: Shipping costs related to Canada Post strike (i) | – | 553 | – | 553 |
| SG&A: Changes in key personnel (j) | 1,165 | 566 | 2,339 | 573 |
| SG&A: Other non-recurring items (k) | 270 | 682 | 464 | 899 |
| SG&A: Non-cash rent adjustments (l) | – | (52) | – | (617) |
| SG&A: Amortization of intangible assets acquired by Searchlight (m) | 692 | 949 | 3,539 | 3,797 |
| Total adjustments | 65,419 | 5,359 | 73,051 | 11,065 |
| Tax effect of adjustments | (11,333) | (1,291) | (13,227) | (2,286) |
| **Adjusted Net Income[(o)]** | **13,269** | **22,344** | **4,018** | **20,179** |

Notes:

(a) In F2018, we commenced preparations for the DC Relocation Project. During the period of transition, we incurred expenses related to, among other things, training, testing and administrative costs, along with rent and other operating costs in connection with the need to operate two distribution centres simultaneously. These expenses would not be incurred as part of our normal business operations and are not recurring.

(b) The impact of IFRS 16 in Q4 2019 and F2019 was: (i) an increase to SG&A expenses of $2,018 and an decrease to SG&A expenses of $1,411, respectively, which comprised the impact of depreciation and impairment on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of $2,261 and $9,048, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax recovery impact of $519 and $1,414, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. See “New Accounting Standards Adopted in the Year”.

(c) Represents a one-time reimbursement paid by Roots to our international operating partner related to import taxes in Taiwan incurred by our partner in respect of certain footwear categories shipped from China.

(d) As a result of the Acquisition, we recognized an intangible asset for lease arrangements in the amount of $6,310, which when excluding the impacts of IFRS 16, is amortized over the life of the leases and included in SG&A expenses. In our view, this cost does 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.

(e) In connection with our initial public offering (“**IPO**”), we incurred expenses related to professional fees, legal, consulting, accounting, and travel that would otherwise not have been incurred and are not recurring.

(f) Represents a non-cash impairment charge taken against certain leasehold improvements for stores where the recoverable amount is deemed to be below the carrying value. Of the total non-cash impairment charge taken, $12,738 pertains to impairment of leasehold improvements at the New U.S. stores.

(g) Represents a non-cash impairment charge taken against goodwill of the DTC CGU (as defined below) as the recoverable amount is deemed to be below the carrying value.

(h) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Incentive Plan.

(i) As a result of the Canada Post labour disruption in Q4 2018, we incurred incremental shipping costs relating to the use of an alternative shipping partner to fulfill orders. Management is of the view that these labour disruptions are infrequent in nature, and do not reflect the underlying costs to fulfill orders as part of our normal business operations.

(j) Represents expenses incurred in respect of the Company's efforts to recruit for vacancies in key management positions and severance costs associated with such employee separations.

(k) Predominately represents expenses incurred in respect of the following matters: (i) consulting costs relating to a non-recurring brand positioning project, (ii) costs incurred related to rationalizing our store portfolio, and (iii) contract cancellation costs incurred as the Company continues to review and optimize its operating costs. Management has determined that these projects are 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.

(l) Under IFRS, prior to the adoption of IFRS 16, we were 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 prior year comparative period.

(m) 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, *Business Combinations*. 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.

(n) Adjusted EBITDA excludes the impact of IFRS 16 in Q4 2019 and F2019. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2019 and F2019, Adjusted EBITDA would have been $30,221 and $51,618, respectively.

(o) Adjusted Net Income excludes the impact of IFRS 16 in Q4 2019 and F2019. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2019 and F2019, Adjusted Net Income (Loss) would have been $9,466 and $(2,632), respectively.

## 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 debt service requirements, and also comply with our financial covenants (see "Indebtedness"). In addition, we believe that our capital structure provides us with sufficient financial flexibility to pursue our future growth strategies. However, our ability to fund future operating expenses, capital expenditures and debt service requirements, and to comply with financial covenants, 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 2019** | **Q4 2018** | **F2019** | **F2018** |
|---|---|---|---|---|
| Net cash generated from operating activities . . . . . . . . . . | 44,834 | 46,832 | 40,044 | 19,364 |
| Net cash generated from (used in) financing activities. . . | (46,908) | (36,327) | (13,583) | 241 |
| Net cash used in investing activities . . . . . . . . . . . . . . . . . | (2,847) | (8,869) | (22,320) | (31,832) |
| **Change in cash and bank indebtedness** . . . . . . . . . . . | **(4,921)** | **1,636** | **4,141** | **(12,227)** |

## Analysis of Cash Flows for Q4 2019 and F2019 compared to Q4 2018 and F2018

### *Cash Flows from Operating Activities*

For Q4 2019 and F2019, cash flows from operating activities totalled $44,834 and $40,044, respectively, compared to $46,832 and $19,364 in Q4 2018 and F2018, respectively. The variances are primarily attributable to presentation changes due to the implementation of IFRS 16 with an offsetting impact in cash flows used in financing and investing activities. Excluding the presentation impact of IFRS 16, Q4 2019 and F2019 cash flows from operating activities would have been $40,006 and $16,417, respectively, or a decrease of $6,826 and $2,947 as compared to Q4 2018 and F2018, respectively. The decrease in cash flows from operating activities in Q4 2019 and F2019, compared to Q4 2018 and F2018, respectively, is attributable to the decrease in net income (loss), as analyzed above.

### *Cash Flows from (used in) Financing Activities*

For Q4 2019 and F2019, cash flows from (used in) financing activities amounted to $(46,908) and $(13,583), respectively, compared to $(36,327) and $241 in Q4 2018 and F2018, respectively. The changes are partially attributable to presentation changes due to the implementation of IFRS 16 with an offsetting impact in cash flows from (used in) operating activities and investing activities. Excluding the presentation impact of IFRS 16, Q4 2019 and F2019 cash flows from (used in) financing activities would have been $(42,333) and $3,514, respectively, or an increase in cash outflows of $6,006 as compared to Q4 2018, and an increase in cash inflows of $3,273 as compared to F2018.

The year-over-year decrease in cash flows from (used in) financing activities in Q4 2019 was largely driven by greater repayments on our Revolving Credit Facility during Q4 2019 as a result of greater drawings on our Revolving Credit Facility during the first three quarters of F2019.

The year-over-year increase in cash flows from (used in) financing activities in F2019 is largely driven by greater drawings on our Revolving Credit Facility to fund our capital investments and operations, offset by scheduled repayments on our Term Credit Facility. In F2019, we made $4,984 of repayments on our Term Credit Facility (F2018 - $4,984) and $9,000 of net draws on our Revolving Credit Facility during the year (F2018 - $5,000).

### *Cash Flows used in Investing Activities*

For Q4 2019 and F2019, cash flows used in investing activities amounted to $2,847 and $22,320, respectively, compared to $8,869 and $31,832 in Q4 2018 and F2018, respectively. The changes are partially attributable to presentation changes due to the implementation of IFRS 16 with an offsetting impact in cash flows from (used in) operating activities and financing activities. Excluding the presentation impact of IFRS 16, Q4 2019 and F2019 cash flows used in investing activities would have been $2,593 and $15,789, respectively, or a decrease of $6,276 and $16,043 as compared to Q4 2018 and F2018, respectively. The decrease is primarily due to fewer capital projects undertaken as compared to F2018, including the substantial completion of capital expenditures related to our DC Relocation Project for which more cash was deployed in F2018.

**Indebtedness**

The Company has a secured credit agreement ("**Credit Agreement**") with a syndicate of lenders consisting of a term loan (the "**Term Credit Facility**") and a revolving credit loan (the "**Revolving Credit Facility**" and, together with the Term Credit Facility, the "**Credit Facilities**").

On April 23, 2019, the Company amended the Credit Facilities to increase the availability under the Revolving Credit Facility to an amount not exceeding $75,000, less the aggregate swing line loan of $10,000. The amendment also adjusted certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. The Company incurred $163 of costs associated with the amendment, which have been recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The Credit Facilities mature on September 6, 2022.

As at the end of F2019, the Company had unused borrowing capacity available under the Revolving Credit Facility of $61,000 (F2018 - $55,000 unused borrowing capacity on an available Revolver Credit Facility of $60,000, prior to the increase that occurred on April 23, 2019).

The Credit Facilities 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 Company has financial and non-financial covenants under the Credit Facilities. The key financial covenants include covenants for senior secured debt to Adjusted EBITDA ratio, total debt to Adjusted EBITDA ratio, and fixed charge coverage ratio. As at the end of F2019, the Company was in compliance with such covenants.

See also "Subsequent Events".

The following table sets out the mandatory repayment of the Credit Facilities:

| **CAD $000s** | **Term Credit Facility** | **Revolving Credit Facility** |
|---|---|---|
| Within 1 year. . . . . . . . . . . . . . . . . | 4,984 | – |
| Within 1 - 2 years. . . . . . . . . . . . . | 4,984 | – |
| Within 2 - 3 years. . . . . . . . . . . . . | 67,247 | 14,000 |
| Within 3 - 4 years. . . . . . . . . . . . . | – | – |
| **Total** . . . . . . . . . . . . . . . . . . . . . . . | **77,215** | **14,000** |

## 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 1, 2020:

| CAD$000s | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Term Credit Facility [(1)] . . . . . . . . | 4,984 | 4,984 | 67,247 | – | – | – | 77,215 |
| Revolving Credit Facility . . . . . . | – | – | 14,000 | – | – | – | 14,000 |
| Interest commitments relating to long-term debt [(2)] . . . . . . . . . . | 3,084 | 2,880 | 2,026 | – | – | – | 7,990 |
| Payments on lease liabilities . . | 30,787 | 28,185 | 26,174 | 24,893 | 20,458 | 59,913 | 190,410 |
| Remaining lease obligations [(3)] | – | 144 | 157 | 166 | 178 | 1,058 | 1,703 |
| Inventory purchase commitments [(4)] . . . . . . . . . . . . . | 60,072 | – | – | – | – | – | 60,072 |
| **Total commitments and obligations. . . . . . . . . . . . . . . . .** | **98,927** | **36,193** | **109,604** | **25,059** | **20,636** | **60,971** | **351,390** |

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 1, 2020, and assuming no prepayments are made to the Term Credit Facility.

(3) Remaining lease obligations include obligations on leases that have been excluded from lease liabilities under IFRS 16 either due to recognition exemptions for leases with less than one year remaining as of the date of adoption or due to contractual commitments for leases with future commencement dates. Remaining lease obligations reflect minimum annual commitments for our operating leases on those premises, excluding renewal options and variable rent.

(4) 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 “Factors Affecting our Performance – Seasonality”), our net debt position may be higher during the first three fiscal quarters when working capital requirements peak and will generally decrease in the fourth fiscal quarter. Historically, contractual obligations and commitments during the first three 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 fourth fiscal quarter, we have historically generated positive cash flow from operations to fund our remaining contractual obligations and commitments and would make repayments against draws on our Revolving Credit Facility during the first three 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 (see also “Factors Affecting our Performance – Novel Coronavirus”).

## Financial Instruments

Commencing in F2017, we have designated foreign currency forward contracts as 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 the 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 (loss).

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 1, 2020, the Company has recorded a derivative liability of $158, representing foreign currency forward contracts to buy U.S. $44,885 at an average rate of 1.33. As at February 1, 2020, the exchange rate was 1.32.

All other financial assets and financial liabilities are measured at amortized cost using the effective interest method, with the exception of cash which is measured at fair value through profit and loss.

## Current Share Information

As of April 28, 2020, there were 42,124,451 Shares issued and outstanding (April 2, 2019 – 42,120,231) and nil preferred shares issued and outstanding (April 2, 2019 – nil).

During F2019, the Company granted 808,105 time-based options and 243,313 RSUs under the Omnibus Plan. In addition, 4,220 Shares were issued from treasury, as a result of the exercise of 4,220 RSUs granted under the Omnibus Plan. During F2019, 2,872,633 options and 114,385 RSUs were forfeited and cancelled. As at February 1, 2020, approximately 1.2 million stock options and 0.2 million RSUs were granted and outstanding and 471,541 options and 15,985 RSUs were vested as of such date. Each option and RSU is, or will become, exercisable for one Share.

During F2019, the Company also granted 141,916 deferred share units ("**DSUs**") under the Company's deferred share unit plan (the "**DSU Plan**"). As of February 1, 2020, all of the DSUs were outstanding under the DSU Plan. No Shares will be issued upon the settlement of DSUs.

## 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 48.7% of the total issued and 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% of the total issued and outstanding Shares. All transactions as described in the table below are in the normal course of business and have been accounted for at their exchange value

As of February 1, 2020, we have incurred the following costs in connection with transactions entered into with related parties:

| CAD $000s | Q4 2019 | Q4 2018 | F2019 | F2018 |
|---|---|---|---|---|
| Rent[(1)] | 71 | 199 | 616 | 794 |

Notes:

(1) The Company leases the building for its manufacturing facility and, until August 2019, leased the building for its former distribution centre, from companies that are under common control of the Founders. Figures include rent expenses as they relate to the lease of these properties.

In addition to the transactions noted above, on August 6, 2019, Meghan Roach, a managing director of Searchlight, was appointed as Interim Chief Financial Officer on a temporary secondment basis. Subsequent to the appointment of a new CFO, on January 6, 2020, Ms. Roach was appointed to the role of Interim Chief Executive Officer on a temporary secondment basis, while the Company conducts a formal executive search to identify a permanent Chief Executive Officer. Ms. Roach has provided her services at no cost to the Company.

In February 2016, a former 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 4.0% 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 1, 2020, the outstanding balance on the loan and accrued interest was $585 (February 2, 2019 – $562). The officer resigned from the Company effective August 9, 2019.

## F2019 Financial Outlook Results

In connection with our IPO in 2017, we provided certain financial growth targets and expectations that were based, at the time, on management's strategies, assumptions and expectations concerning the Company's growth outlook and opportunities, and its assessment of the outlook and opportunities for the business and the retail industry as a whole. As a result of various factors as further described below, between F2017 and F2019, we revised our previously-disclosed growth targets, most recently in Q3 2019, to the following:

- Sales below the previously-disclosed range of $358 to $375 million by the end of F2019;
- Adjusted EBITDA below the previously-disclosed range of $46 to $50 million by the end of F2019; and

- Adjusted Net Income below the previously-disclosed range of $20 to $24 million by the end of F2019.

Implicit in our growth targets were certain assumptions, relating to, among others: growing our eCommerce business, which exceeded 20% of total DTC sales in F2019; the opening of new corporate retail stores in Canada and the United States; the renovation or expansion of existing corporate retail stores; the opening of new international partner-operated stores; 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. These assumptions were considered reasonable by management at the time of preparation. However, the existence of various factors (see "Summary of Financial Performance"), many of which were unforeseeable and beyond our control, resulted in the Company achieving Sales of $329.9 million, Adjusted EBITDA of $26.1 million and Adjusted Net Income of $4.0 million as at the end of F2019.

See "Non-IFRS Measures and Industry Metrics", "Summary of Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures".

## 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 1, 2020, 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 $290 in Q4 2019 and $1,152 in F2019. 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 primarily with large Canadian and U.S. 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 the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. 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. See "Factors Affecting our Performance" and "Indebtedness".

## 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 1, 2020.

Although the Company's disclosure controls and procedures were operating effectively as of February 1, 2020, 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 1, 2020.

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 CGUs for the purpose of testing store related fixed assets, including ROU 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 that each store location is a separate CGU for the purpose of fixed assets and ROU 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 FVLCS and the VIU of a CGU or a group of CGUs, various estimates are used. VIU 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 from gift card breakage 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 judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments 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

### *Leases*

The Company has applied judgment to determine the lease term for lease contracts that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. In determining the incremental borrowing rates, management considers the Company's creditworthiness, the security, the term, the value of the underlying leased asset, and the economic operational environment of the leased asset. The incremental borrowing rates are subject to change mainly due to macroeconomic factors.

**New Accounting Standards Adopted in the Year**

- In 2016, the IASB issued IFRS 16, replacing IAS 17, Leases ("**IAS 17**"), 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. The lessee recognizes a ROU asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessors continue to classify leases as finance and operating leases.

  IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on February 3, 2019 under the modified retrospective approach, with no restatement of the prior comparative period.

  Substantially all of the Company's existing leases are real estate leases for retail stores, its distribution centres, leather factory, and corporate head office, and all were classified as operating leases prior to our adoption of IFRS 16. Other operating leases include IT equipment and certain machinery. On February 3, 2019, the Company recognized ROU assets and lease liabilities for its leases previously classified as operating leases under IAS 17, except for certain classes of underlying assets for which the lease terms are 12 months or less. The depreciation expense on ROU assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease. There are no significant impacts to the Company's existing finance leases under IAS 17.

  The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position on February 3, 2019 was 5.8%. The average lease term remaining as at February 3, 2019 was 4.8 years.

  IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

  - contracts that were identified as leases under IAS 17 were not reassessed under IFRS 16;

  - a single discount rate was applied to a portfolio of leases with reasonably similar underlying characteristics;

  - certain short-term leases were excluded from IFRS 16 lease accounting;

- initial direct costs were excluded in the measurement of the ROU asset on transition; and

- hindsight was used in determining the lease term at the end of initial application.

The following table provides the year-over-year impacts of the implementation of IFRS 16 on the consolidated results of the Company in Q4 2019 and F2019:

| CAD $000s<br>**Favourable (Unfavourable)** | **Q4 2019** | **F2019** |
|---|---|---|
| SG&A expenses | (2,018) | 1,411 |
| Interest expense | (2,261) | (9,048) |
| Income taxes recovery | 519 | 1,414 |
| **Net loss** | **(3,760)** | **(6,223)** |

### Subsequent Events

In March 2020, in response to the COVID-19 global emergency, the Company temporarily closed all its corporate retail stores in Canada and the United States, and temporarily closed or reduced capacity at other facilities in its supply chain and distribution channels, prioritizing the health and safety of its customers and employees and to help manage the spread of the virus. As a result, the Company made the very difficult decision to temporarily lay off its store and leather factory employees. The Company will continue to comply with the laws of each of the regions in which it operates, and to evaluate the appropriate time to reopen its stores as the situation evolves.

Our consolidated financial results in fiscal 2020 will be materially negatively impacted by this event. The Company has substantially reduced costs and capital expenditures across all areas of the business and is actively managing liquidity. The Board of Directors and Roots senior leadership team have temporarily reduced their compensation and salaries, respectively, by a minimum of 25%, and all other head office salaries have been reduced as well. The Company has also reduced forward inventory purchases, minimized discretionary expenditures and effectively stopped capital spend. Additionally, the Company continues to work closely with its landlords, partners, suppliers, as well as service and logistics providers to identify further areas of cost reduction. The Company is evaluating all applicable government relief programs and will work with its lenders to manage covenant requirements during this pandemic period.

On March 27, 2020, the Company amended its Credit Agreement to adjust certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. The Company incurred $123 of costs associated with the amendment, which will be recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The $75,000 Revolver Credit Facility limit less the aggregate swing line loan of $10,000, and the September 6, 2022 maturity remains unchanged.

In March 2020, the Board made the decision to liquidate Roots USA Corporation, its U.S. subsidiary, through a Chapter 7 bankruptcy filing. The filing is expected to be made on April 29, 2020 and will result in the permanent closure of the Company's stores in Boston, Washington and Chicago, as well as its pop-up location in Woodbury Common, New York. Roots will maintain a

presence in the U.S. market by continuing to operate two longstanding corporate retail stores in Michigan and Utah as well as its global eCommerce platform.

**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 CORPORATION

Consolidated Financial Statements

For the 52-week periods ended February 1, 2020 and
February 2, 2019
(In Canadian dollars)

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Roots Corporation

## *Opinion*

We have audited the consolidated financial statements of Roots Corporation (the Entity), which comprise:

- the consolidated statement of financial position as at February 1, 2020 and February 2, 2019
- the consolidated statement of net income (loss) for the 52 week periods then ended
- the consolidated statement of comprehensive income (loss) for the 52 week periods then ended
- the consolidated statement of changes in shareholders' equity for the 52 week periods then ended
- the consolidated statement of cash flows for the 52 week periods then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at February 1, 2020 and February 2, 2019, and its consolidated financial performance and its consolidated cash flows for the 52 week periods then ended in accordance with International Financial Reporting Standards (IFRS).

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## *Material Uncertainty Related to Going Concern*

We draw attention to Note 1(f) in the financial statements, which indicates that the Entity has prepared the financial statements on a going concern basis. The Entity has temporarily closed all of its stores in both Canada and the United States and temporarily decreased capacity at other supply chain and distribution channels due to the COVID-19 pandemic. While most of these effects are expected to be temporary, the duration of the business disruptions and impacts on the Entity's liquidity cannot be reasonably estimated at this time. As such the Entity's ability to continue its operations is dependent on access to borrowings and other forms of relief support.

These events or conditions, along with other matters as set forth in Note 1(f) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

## *Emphasis of Matter – Change in Accounting Policy*

We draw attention to Note 2 to the financial statements which indicates that the Entity has changed its accounting policy for leases as of February 3, 2019 due to the adoption of IFRS 16 *Leases* and has applied that change using a modified retrospective approach.

Our opinion is not modified in respect of this matter.

## *Other Information*

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Online Annual Report" and/or "2019 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Online Annual Report" and/or "2019 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Farah Bundeali.

Vaughan, Canada
April 28, 2020

# ROOTS CORPORATION

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

As at February 1, 2020 and February 2, 2019

| | Note | February 1, 2020 | February 2, 2019 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | $ 949 | $ 1,991 |
| Accounts receivable | 4, 15 | 7,158 | 6,627 |
| Inventories | 5 | 40,152 | 49,533 |
| Prepaid expenses | | 5,418 | 6,443 |
| Derivative assets | 15 | – | 366 |
| Total current assets | | 53,677 | 64,960 |
| Non-current assets: | | | |
| Loan receivable | 15, 19 | 585 | 562 |
| Lease receivable | 10, 15 | 1,511 | – |
| Fixed assets | 6 | 55,694 | 64,163 |
| Right-of-use assets | 10 | 128,322 | – |
| Intangible assets | 7 | 193,079 | 198,724 |
| Goodwill | 8 | 7,906 | 52,705 |
| Total non-current assets | | 387,097 | 316,154 |
| Total assets | | $ 440,774 | $ 381,114 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Bank indebtedness | | $ 7,226 | $ 12,409 |
| Accounts payable and accrued liabilities | | 20,252 | 22,291 |
| Deferred revenue | | 6,011 | 5,498 |
| Income taxes payable | 16 | 2,008 | 6,445 |
| Current portion of lease liabilities | 10 | 26,569 | – |
| Current portion of long-term debt | 11 | 4,984 | 4,984 |
| Derivative obligations | 15 | 158 | – |
| Total current liabilities | | 67,208 | 51,627 |
| Non-current liabilities: | | | |
| Deferred tax liabilities | 16 | 13,942 | 22,761 |
| Deferred lease costs | | – | 10,063 |
| Finance lease obligation | | – | 504 |
| Long-term portion of lease liabilities | 10 | 124,590 | – |
| Long-term debt | 11 | 84,528 | 80,031 |
| Other non-current liabilities | 7 | – | 1,424 |
| Total non-current liabilities | | 223,060 | 114,783 |
| Total liabilities | | 290,268 | 166,410 |
| Shareholders' equity: | | | |
| Share capital | 12 | 196,903 | 196,853 |
| Contributed surplus | 14 | 3,407 | 3,975 |
| Accumulated other comprehensive income (loss) | | (116) | 268 |
| Retained earnings (deficit) | | (49,688) | 13,608 |
| Total shareholders' equity | | 150,506 | 214,704 |
| Total liabilities and shareholders' equity | | $ 440,774 | $ 381,114 |

Contingencies 17
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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 (Loss)
(In thousands of Canadian dollars, except per share amounts)

For the 52-week periods ended February 1, 2020 and February 2, 2019

| | Note | February 1, 2020 | February 2, 2019 |
|---|---|---|---|
| Sales | | $ 329,865 | $ 329,028 |
| Cost of goods sold | 5 | 153,676 | 140,538 |
| Gross profit | | 176,189 | 188,490 |
| Selling, general and administrative expenses | | 188,308 | 166,790 |
| Goodwill impairment | 8 | 44,799 | – |
| Income (loss) before interest expense and income taxes expense (recovery) | | (56,918) | 21,700 |
| Interest expense | 11 | 15,567 | 5,171 |
| Income (loss) before income taxes | | (72,485) | 16,529 |
| Income taxes expense (recovery) | 16 | (10,456) | 5,129 |
| Net income (loss) | | $ (62,029) | $ 11,400 |
| Basic earnings (loss) per share | 13 | $ (1.47) | $ 0.27 |
| Diluted earnings (loss) per share | 13 | $ (1.47) | $ 0.27 |

*See accompanying notes to consolidated financial statements.*

# ROOTS CORPORATION

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

For the 52-week periods ended February 1, 2020 and February 2, 2019

| | Note | February 1, 2020 | February 2, 2019 |
|---|---|---|---|
| Net income (loss) | | $ (62,029) | $ 11,400 |
| 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 | 9, 15 | 425 | 3,538 |
| Cost of hedging excluded from cash flow hedges | 9, 15 | 362 | 218 |
| Tax impact of cash flow hedges | 9, 15 | (210) | (1,001) |
| Total other comprehensive income | | 577 | 2,755 |
| Total comprehensive income (loss) | | $ (61,452) | $ 14,155 |

*See accompanying notes to consolidated financial statements.*

# ROOTS CORPORATION

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

For the 52-week periods ended February 1, 2020 and February 2, 2019

| February 1, 2020 | Note | Share capital | Contributed surplus | Retained earnings (deficit) | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|
| Balance, February 2, 2019 | | $ 196,853 | $ 3,975 | $ 13,608 | $ 268 | $ 214,704 |
| Adjustment on adoption of IFRS 16 | 2 | – | – | (1,267) | – | (1,267) |
| Balance, February 3, 2019 | | $ 196,853 | $ 3,975 | $ 12,341 | $ 268 | $ 213,437 |
| Net loss | | – | – | (62,029) | – | (62,029) |
| Net gain from change in fair value of cash flow hedges, net of income taxes | | – | – | – | 577 | 577 |
| Transfer of realized loss on cash flow hedges to inventories, net of income taxes | | – | – | – | (961) | (961) |
| Share-based compensation | 14 | – | (518) | – | – | (518) |
| Issuance of shares | 12, 14 | 50 | (50) | – | – | – |
| Balance, February 1, 2020 | | $ 196,903 | $ 3,407 | $ (49,688) | $ (116) | $ 150,506 |

| February 2, 2019 | Note | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|
| Balance, February 4, 2018 | | $ 195,994 | $ 1,675 | $ 2,208 | $ (904) | $ 198,973 |
| Net income | | – | – | 11,400 | – | 11,400 |
| Net gain from change in fair value of cash flow hedges, net of income taxes | | – | – | – | 2,755 | 2,755 |
| Transfer of realized loss on cash flow hedges to inventories, net of income taxes | | – | – | – | (1,583) | (1,583) |
| Share-based compensation | 14 | – | 2,507 | – | – | 2,507 |
| Issuance of shares | 12, 14 | 859 | (207) | – | – | 652 |
| Balance, February 2, 2019 | | $ 196,853 | $ 3,975 | $ 13,608 | $ 268 | $ 214,704 |

*See accompanying notes to consolidated financial statements.*

# ROOTS CORPORATION

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

For the 52-week periods ended February 1, 2020 and February 2, 2019

| | Note | February 1, 2020 | February 2, 2019 |
|---|---|---|---|
| Cash provided by (used in): | | | |
| Operating activities: | | | |
| Net income (loss) | | $ (62,029) | $ 11,400 |
| Items not involving cash: | | | |
| Depreciation and amortization | 6, 7, 10 | 39,606 | 12,935 |
| Share-based compensation expense (recovery) | 14 | (518) | 2,507 |
| Impairment of fixed assets and right-of-use assets | 6, 10 | 22,398 | 1,375 |
| Impairment of goodwill | 8 | 44,799 | – |
| Deferred lease costs (recovery) | | – | (617) |
| Amortization of lease intangibles | 7 | – | 548 |
| Interest expense | 11 | 15,567 | 5,171 |
| Income taxes expense (recovery) | 16 | (10,456) | 5,129 |
| Gain on lease modification | 10 | (520) | – |
| Interest paid | | (5,904) | (4,620) |
| Payment of interest on lease liabilities | 10, 11 | (9,048) | – |
| Taxes paid | | (2,200) | (4,104) |
| Change in non-cash operating working capital: | | | |
| Accounts receivable | 4 | (531) | (207) |
| Inventories | 5 | 9,381 | (14,126) |
| Prepaid expenses | | 1,025 | (863) |
| Accounts payable and accrued liabilities | | (2,039) | 3,985 |
| Deferred revenue | | 513 | 851 |
| | | 40,044 | 19,364 |
| Financing activities: | | | |
| Issuance of long-term debt | 11 | 9,000 | 5,000 |
| Long-term debt financing costs | 11 | (163) | (66) |
| Repayment of long-term debt | 11 | (4,984) | (4,984) |
| Finance lease payments | | – | (361) |
| Payment of principal on lease liabilities, net of tenant allowance | 10 | (17,436) | – |
| Proceeds from issuance of shares | 12 | – | 652 |
| | | (13,583) | 241 |
| Investing activities: | | | |
| Additions to fixed assets | 6 | (22,320) | (37,695) |
| Tenant allowance received | | – | 5,863 |
| | | (22,320) | (31,832) |
| Increase (decrease) in cash | | 4,141 | (12,227) |
| Cash, beginning of period | | (10,418) | 1,809 |
| Cash and bank indebtedness, end of period | | $ (6,277) | $ (10,418) |

*See accompanying notes to consolidated financial statements.*

## 1. Nature of operations and basis of presentation

Established in 1973, Roots is a premium outdoor lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products that embody a comfortable cabin-meets-city style including: women's and men's apparel, leather goods, footwear, accessories, and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As at February 1, 2020, we had 114 corporate retail stores in Canada, eight corporate retail stores in the United States, 114 partner-operated stores in Taiwan, 36 partner-operated stores in China, one partner-operated store in Hong Kong, and a global eCommerce platform. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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".

The Company's common shares ("Shares") are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "ROOT".

<u>Basis of preparation</u>

(a) Fiscal period

The fiscal year of the Company consists of a 52 or 53 week period ending the closest Saturday to January 31 of each year. The current and comparative fiscal periods for the consolidated financial statements contain 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 28, 2020.

(c) Basis of measurement

The consolidated financial statements were prepared on a historical cost basis, except for derivative financial instruments consisting of forward hedging contracts, and share-based compensation, which are measured at fair value.

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, unless otherwise stated. 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 subsidiaries have been eliminated on consolidation.

(f) Going concern due to COVID-19

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities, including the current portion of debt, in the normal course of business into the foreseeable future.

In December 2019, a novel coronavirus ("COVID-19") surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak, which was subsequently characterized as a pandemic on March 11, 2020, leading many countries to take drastic measures to manage the spread of the virus. As a result of the (a) spread of the coronavirus in all relevant jurisdictions to the Company's supply chain and consumer base; (b) impact of government measures imposed to help manage the spread of the virus; (c) actions undertaken by the Company to ensure the well-being and safety of our customers and employees; and (d) uncertainty over the duration of business disruptions as a result of COVID-19, management has concluded that there exists material uncertainties which may cast significant doubt regarding the Company's ability to meet its obligations as they come due.

The Company has established a cross-functional task force to evaluate its business operations in the context of COVID-19, with a focus on health and safety of the Roots team and customers, current company operations, business continuity and managing liquidity. The Company has since temporarily closed all its stores in Canada and the United States and has temporarily closed or reduced capacity at other facilities in its supply chain and distribution channels (see also Note 20 – Subsequent Events). As permitted by current government regulations, the Company continues to operate its eCommerce business and its distribution centre, with strict cleaning protocols and social distancing measures in place. The Company also continues to operate its Partners and Others business under its work-from-home model. In addition, the Company is reducing forward inventory purchases and substantially reducing operating costs and capital expenditures across all areas of the business, including working closely with suppliers and partners including all key service and logistics providers, to control costs, manage liquidity, and best position the business in the current retail climate and going forward.

Management recognizes that while it has implemented an action plan to best navigate the impacts of COVID-19 on the business, this situation continues to evolve quickly and there is significant uncertainty regarding the outcome of this pandemic. At this point, we expect to have access to borrowings and other forms of relief support to be made available to businesses impacted by this pandemic. However, to the extent the situation, particularly in Canada, continues to worsen, the degree to which aspects of the Company's operations could be affected may increase, and it is possible that the Company's consolidated financial results in fiscal 2020, including its financial performance, liquidity, and compliance with certain financial covenants, will be negatively impacted by this event. If the going concern assumption was not appropriate as of February 1, 2020, adjustments to the carrying values of assets and liabilities would be necessary and such adjustments could be material.

(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, including right-of-use 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 that each store location is a separate CGU for the purpose of fixed assets and right-of-use 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 fair value less cost to sell ("FVLCS") and the value-in-use ("VIU") of a CGU or a group of CGUs, various estimates are used. VIU 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 from breakage is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift card is issued.

*(v) Leases*

The Company has applied judgment to determine the lease term for lease contracts that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. In determining the incremental borrowing rates, management considers the Company's creditworthiness, the security, the term, the value of the underlying leased asset, and the economic operational environment of the leased asset. The incremental borrowing rates are subject to change mainly due to macroeconomic factors.

*(vi) Income taxes*

The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments 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 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. Non-monetary assets and liabilities 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 exchange rates prevailing during the period. The resulting gains or losses on translation are included in the determination of net income (loss) for the period and comprehensive income (loss).

(b) Revenue recognition

Revenue includes sales to customers through retail stores operated by the Company and through eCommerce. Sales to customers through retail stores are recognized at the time of purchase, net of a provision for returns. eCommerce 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 eCommerce 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.

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 (loss), on a diminishing-balance or straight-line basis, over the estimated useful lives of each component of an item of fixed assets from the date that they are available 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, from the date they are available for use, based on the following annual rates:

| Asset | Basis | Rate |
|---|---|---|
| Computer hardware | Diminishing-balance | 20% |
| Furniture and fixtures | Diminishing-balance | 20% |
| Equipment | Diminishing-balance | 10% |
| Computer software | Straight-line | 3 - 5 years |
| Leasehold improvements | Straight-line | Term of lease to a maximum of 10 years |
| Assets held under finance leases | Straight-line | Term of lease |

(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 and customer relationships is recognized in selling, general and administrative expenses in the consolidated statement of net income (loss). The estimated useful lives for the current period are 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 of non-financial assets.

(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 is based on the greater of the CGU's FVLCS and its VIU. 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

The Company recognizes a right-of-use asset and a lease liability as the present value of future lease payments when the lessor makes the leased asset available for use by the Company.

Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the Company under residual value guarantees, and the exercise price of a purchase option or penalties for terminating the lease, if the Company is reasonably certain to exercise those purchase or termination options. Lease liabilities are recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal options or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured when there is a change in lease term, a change in the assessment of an option to purchase the leased asset, a change in expected residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

Right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the amount of the initial measurement of the related lease liability, plus any lease payments made at or before the commencement date and any initial direct costs and future restoration costs, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis from the date that the underlying asset is available for use. Depreciation is recorded over the shorter of the lease term and the useful life of the underlying asset, unless the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, in which case depreciation is recorded over the useful life of the underlying asset.

Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate continue to be recognized in selling, general and administrative expenses.

*Subleases*

When the Company enters into sublease arrangements as an intermediate lessor, it assesses whether the sublease is classified as a finance sublease or an operating sublease by reference to the corresponding right-of-use asset arising from the head lease, rather than by reference to the underlying asset. A sublease is a finance sublease if substantially all the risks and rewards incidental to ownership of the related right-of-use asset on the head lease have been transferred to the sub-lessee.

(h) Income taxes

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

Current income tax is the expected tax payable on the taxable income or net income (loss) 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 income 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 (loss) per share ("EPS")

Basic EPS 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 EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding, plus the weighted average number of common shares that would be issued on exercise of dilutive securities granted to employees, as calculated under the treasury stock method, so long as the result would not reduce the loss per share.

(k) Financial instruments

Non-derivative 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.

Non-derivative financial 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 designates 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 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 (loss). The time value component of forward contracts designated as cash flow hedges is excluded from the hedging relationship and recorded in other comprehensive income ("OCI") 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 (loss), 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 (loss).

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 (loss).

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

| | Classification |
|---|---|
| Financial assets: | |
| Cash | Fair value through profit or loss |
| Accounts receivable | Amortized cost |
| Loan receivable | Amortized cost |
| Lease receivable | Amortized cost |
| Derivative assets | Fair value through OCI |
| Financial liabilities | |
| Accounts payable and accrued liabilities | Amortized cost |
| Derivative obligations | Fair value through OCI |
| Long-term debt | Amortized cost |
| Finance lease obligation | 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 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases ("IAS 17"), 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. The lessee recognizes a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessors continue to classify leases as finance and operating leases.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on February 3, 2019 under the modified retrospective approach, with no restatement of the prior comparative period.

Substantially all of the Company's existing leases are real estate leases for its retail stores, distribution centres, leather factory, and corporate head office, and all were classified as operating leases prior to adoption of IFRS 16. Other operating leases include IT equipment and certain machinery. On February 3, 2019, the Company recognized right-of-use assets and lease liabilities for its leases previously classified as operating leases under IAS 17, except for certain classes of underlying assets for which the lease terms are 12 months or less. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease. There are no significant impacts to the Company's existing finance leases under IAS 17.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position on February 3, 2019 was 5.8%. The average lease term remaining as at February 3, 2019 was 4.8 years.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- contracts that were identified as leases under IAS 17 were not reassessed under IFRS 16;
- a single discount rate was applied to a portfolio of leases with reasonably similar underlying characteristics;
- certain short-term leases were excluded from IFRS 16 lease accounting;
- initial direct costs were excluded in the measurement of the right-of-use assets on transition; and
- hindsight was used in determining lease term at the date of initial application.

On the date of initial application, the Company applied the requirements of IAS 36, Impairment of Assets, and recorded a post-tax impairment of $1,267 on right-of-use assets on February 3, 2019.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

| | As previously reported under IAS 17, February 2, 2019 | IFRS 16 transition adjustments | Balances as at February 3, 2019 |
|---|---|---|---|
| Assets: | | | |
| Lease receivable | $ – | $ 1,808 | $ 1,808 |
| Fixed assets | 64,163 | (794) | 63,369 |
| Right-of-use assets | – | 137,294 | 137,294 |
| Intangible assets | 198,724 | (2,106) | 196,618 |
| Total impact to assets | | 136,202 | |
| Liabilities and shareholders' equity: | | | |
| Deferred tax liabilities | $ 22,761 | $ (460) | $ 22,301 |
| Current portion of lease liabilities | – | 28,273 | $ 28,273 |
| Deferred lease costs | 10,063 | (10,063) | – |
| Finance lease obligation | 504 | (504) | – |
| Long-term portion of lease liabilities | – | 121,647 | 121,647 |
| Other non-current liabilities | 1,424 | (1,424) | – |
| Retained earnings | 13,608 | (1,267) | 12,341 |
| Total impact to liabilities and shareholders' equity | | 136,202 | |

The following table provides a reconciliation between operating lease commitments disclosed under IAS 17 as at February 2, 2019 and lease liabilities recognized on February 3, 2019 as a result of the adoption of IFRS 16:

| | |
|---|---|
| Operating lease commitments disclosed as at February 2, 2019 | $ 197,588 |
| Leases excluded from lease liability due to recognition exemptions | (20) |
| Discounted using the weighted average incremental borrowing rate as at February 3, 2019 | 157,404 |
| Finance lease obligations recognized as at February 2, 2019 | 504 |
| Leases with a commencement date after February 3, 2019 | (7,968) |
| Opening balance of lease liabilities, February 3, 2019 | $ 149,920 |

Recorded in the consolidated statement of financial position as follows:

| | |
|---|---|
| Current portion of lease liabilities | $ 28,273 |
| Long-term portion of lease liabilities | 121,647 |
| | $ 149,920 |

### 3. Operating segments

The Company has two reportable operating segments:

(a) The "Direct-to-Consumer" segment comprises sales through corporate retail stores and eCommerce; 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 includes 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 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 1, 2020 | | | February 2, 2019 | | |
|---|---|---|---|---|---|---|
| | Direct-to-Consumer | Partners and Other | Total | Direct-to-Consumer | Partners and Other | Total |
| Sales | $ 287,762 | $ 42,103 | $ 329,865 | $ 283,856 | $ 45,172 | $ 329,028 |
| Cost of goods sold | 125,972 | 27,704 | 153,676 | 110,040 | 30,498 | 140,538 |
| Gross profit | 161,790 | 14,399 | 176,189 | 173,816 | 14,674 | 188,490 |
| Selling, general and administrative expenses[(1)] | | | 188,308 | | | 166,790 |
| Goodwill impairment | | | 44,799 | | | – |
| Income (loss) before interest expense and income taxes expense (recovery) | | | (56,918) | | | 21,700 |
| Interest expense[(1)] | | | 15,567 | | | 5,171 |
| Income (loss) before income taxes | | | $ (72,485) | | | $ 16,529 |

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

## 4. Accounts receivable

| | | | | February 1, 2020 | | | | February 2, 2019 |
|---|---|---|---|---|---|---|---|---|
| | 0-90 days | 91-120 days | > 120 days | Total | 0-90 days | 91-120 days | > 120 days | Total |
| Accounts receivable | $ 6,652 | $ 121 | $ 385 | $ 7,158 | 5,460 | 1,026 | 141 | $ 6,627 |

The following are continuities of the Company's allowance for doubtful accounts receivable:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Allowance for doubtful accounts receivable, beginning of period | $ (83) | $ (47) |
| Increase in allowance for doubtful accounts receivable | (43) | (36) |
| Allowance for doubtful accounts receivables, end of period | $ (126) | $ (83) |

## 5. Inventories

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Raw materials | $ 4,942 | $ 4,667 |
| Work in progress | 742 | 2,193 |
| Finished goods – On hand | 29,035 | 31,616 |
| Finished goods – In-transit | 5,433 | 11,057 |
| | $ 40,152 | $ 49,533 |

The cost of merchandise inventories recognized as an expense and included in cost of goods sold for the period ended February 1, 2020 was $144,214 (period ended February 2, 2019 – $135,882). Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centre including freight, import taxes and duties.

During the period ended February 1, 2020, the Company recorded a $1,607 provision for inventories with net realizable values below cost (period ended February 2, 2019 – $nil).

## 6. Fixed assets

| | Computer hardware | Furniture and fixtures | Equipment | Computer software | Leasehold improvements | Finance leases | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance, February 3, 2018 | $ 1,114 | $ 4,230 | $ 1,122 | $ 8,969 | $ 32,871 | $ 1,112 | $ 49,418 |
| Additions | 527 | 1,464 | 7,987 | 4,947 | 22,770 | – | 37,695 |
| Disposals/adjustments | (30) | (428) | – | – | (3,208) | – | (3,666) |
| Balance, February 2, 2019 | 1,611 | 5,266 | 9,109 | 13,916 | 52,433 | 1,112 | 83,447 |
| IFRS 16 transition adjustments (Note 2) | – | – | – | – | | (1,112) | (1,112) |
| Balance, February 3, 2019 | $ 1,611 | $ 5,266 | $ 9,109 | $ 13,916 | $ 52,433 | $ – | $ 82,335 |
| Additions | 101 | 601 | 1,873 | 4,094 | 15,651 | – | 22,320 |
| Disposals/adjustments | (10) | (56) | – | – | (1,320) | – | (1,386) |
| Balance, February 1, 2020 | $ 1,702 | $ 5,811 | $ 10,982 | $ 18,010 | $ 66,764 | $ – | $ 103,269 |
| **Accumulated depreciation and impairment losses** | | | | | | | |
| Balance, February 3, 2018 | $ 291 | $ 712 | $ 161 | $ 2,585 | $ 8,476 | $ 212 | $ 12,437 |
| Depreciation | 230 | 835 | 126 | 1,295 | 6,546 | 106 | 9,138 |
| Disposals/adjustments | (30) | (428) | – | – | (3,208) | – | (3,666) |
| Fixed asset impairment | – | – | – | – | 1,375 | – | 1,375 |
| Balance, February 2, 2019 | 491 | 1,119 | 287 | 3,880 | 13,189 | 318 | 19,284 |
| IFRS 16 transition adjustments (Note 2) | – | – | – | – | – | (318) | (318) |
| Balance, February 3, 2019 | $ 491 | $ 1,119 | $ 287 | $ 3,880 | $ 13,189 | $ – | $ 18,966 |
| Depreciation | 195 | 846 | 673 | 1,841 | 7,257 | – | 10,812 |
| Disposals/adjustments | (10) | (56) | – | – | (1,320) | – | (1,386) |
| Fixed asset impairment | – | – | – | – | 19,183 | – | 19,183 |
| Balance, February 1, 2020 | $ 676 | $ 1,909 | $ 960 | $ 5,721 | $ 38,309 | $ – | $ 47,575 |
| **Carrying amount** | | | | | | | |
| February 2, 2019 | $ 1,120 | $ 4,147 | $ 8,822 | $ 10,036 | $ 39,244 | $ 794 | $ 64,163 |
| February 1, 2020 | 1,026 | 3,902 | 10,022 | 12,289 | 28,455 | – | 55,694 |

For the period ended February 1, 2020, the Company recorded $19,183 (period ended February 2, 2019 – $1,375) of impairment losses on fixed assets and $3,215 (period ended February 2, 2019 – $nil) of impairment losses on right-of-use assets as disclosed in Note 10, in respect of 21 CGUs (period ended February 2, 2019 – six CGUs) using a VIU test in the Direct-to-Consumer operating segment as part of selling, general and administrative expenses.

For the period ended February 1, 2020, the Company had no impairment reversals on fixed assets and right-of-use assets (period ended February 2, 2019 – $nil).

The recoverable amount for a retail location is based on the VIU of the related CGU. When determining the VIU 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 lease term. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long-term growth rates. The estimate of the VIU of the relevant CGUs was determined using a pre-tax discount rate of 12.5% at February 1, 2020 (February 2, 2019 – 12.5%).

## 7. Intangible assets and other non-current liabilities

Intangible assets:

| | Trade names | License arrangements | Customer relationships | Favourable lease agreements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, February 3, 2018 | $ 175,044 | $ 25,910 | $ 7,766 | $ 6,310 | $ 215,030 |
| Balance, February 2, 2019 | 175,044 | 25,910 | 7,766 | 6,310 | 215,030 |
| IFRS 16 transition adjustments (Note 2) | – | – | – | (6,310) | (6,310) |
| Balance, February 3, 2019 | 175,044 | 25,910 | 7,766 | – | 208,720 |
| Balance, February 1, 2020 | $ 175,044 | $ 25,910 | $ 7,766 | $ – | $ 208,720 |
| **Accumulated amortization and impairment losses** | | | | | |
| Balance, February 3, 2018 | $ – | $ 6,611 | $ 1,694 | $ 3,317 | $ 11,622 |
| Amortization | – | 3,023 | 774 | 887 | 4,684 |
| Balance, February 2, 2019 | – | 9,634 | 2,468 | 4,204 | 16,306 |
| IFRS 16 transition adjustments (Note 2) | – | – | – | (4,204) | (4,204) |
| Balance, February 3, 2019 | – | 9,634 | 2,468 | – | 12,102 |
| Amortization | – | 2,764 | 775 | – | 3,539 |
| Balance, February 1, 2020 | $ – | $ 12,398 | $ 3,243 | $ – | $ 15,641 |
| **Carrying amount** | | | | | |
| February 2, 2019 | $ 175,044 | $ 16,276 | $ 5,298 | $ 2,106 | $ 198,724 |
| February 1, 2020 | 175,044 | 13,512 | 4,523 | – | 193,079 |

Other non-current liabilities:

| | | Unfavourable lease agreements |
|---|---|---|
| **Cost** | | |
| Balance, February 3, 2018 | $ | 2,636 |
| Balance, February 2, 2019 | | 2,636 |
| IFRS 16 transition adjustments (Note 2) | | (2,636) |
| Balance, February 1, 2020 | $ | – |
| **Accumulated amortization and impairment losses** | | |
| Balance, February 3, 2018 | $ | 873 |
| Amortization | | 339 |
| Balance, February 2, 2019 | $ | 1,212 |
| IFRS 16 transition adjustments (Note 2) | | (1,212) |
| Balance, February 1, 2020 | $ | – |
| **Carrying amount** | | |
| February 2, 2019 | $ | 1,424 |
| February 1, 2020 | | – |

Amortization expenses, impairment losses and reversals are recorded in selling, general and administrative expenses in the consolidated statement of net income (loss) in the period in which they occur. No impairment losses or reversals were recognized on intangible assets for the period ended February 1, 2020 (period ended February 2, 2019 – $nil).

Amortization expense on definite life intangibles of $3,539 for the period ended February 1, 2020 (period ended February 2, 2019 – $4,345) has been recognized in the consolidated statement of net income (loss).

The Company has determined that 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. 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.

For the purpose of impairment testing, indefinite life trade names are 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 | Partners & Other | Total |
|---|---|---|---|
| Balance, February 2, 2019 and February 1, 2020 | $ 161,040 | $ 14,004 | $ 175,044 |

## 8. Goodwill

The Company performs an annual impairment assessment of goodwill by comparing the carrying value of each CGU group to the recoverable amount of the CGU group. The recoverable amount is based on the higher of the FVLCS and VIU.

The goodwill balance was previously recognized as a result of the Company's acquisition of assets from Roots Canada Ltd., Roots U.S.A., Inc., Roots America L.P., entities controlled by our founders Michael Budman and Don Green, and all of the issued and outstanding shares of Roots International ULC, finalized on December 1, 2015.

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 | Partners & Other | Total |
|---|---|---|---|
| Balance, February 3, 2018 | $ 44,799 | $ 7,906 | $ 52,705 |
| Balance, February 2, 2019 | 44,799 | 7,906 | 52,705 |
| Goodwill impairment | (44,799) | – | (44,799) |
| Balance, February 1, 2020 | $ – | $ 7,906 | $ 7,906 |

As at February 1, 2020, the recoverable amount of each CGU group was based on FVLCS and was determined by discounting the future cash flows generated from the CGU group.

The Company included five years of cash flows in its discounted cash flow model. Cash flows for the five years were based on past experiences, actual operating results and management's budget projections. The cash flow forecasts were extrapolated beyond the five-year period using an estimated terminal growth rate.

Key assumptions used in the Company's annual impairment assessment as at February 1, 2020 include:

- Annual sales growth rates up to 4% (February 2, 2019 – up to 6%)
- Terminal growth rate of 2.0% (February 2, 2019 – 2.0%)
- After-tax discount rate of 14.0% (February 2, 2019 – 13.5%)
- Pre-tax discount rate of 18.5% (February 2, 2019 – 17.0%)

Segment sales growth rates are based on management's best estimates considering past experiences, actual operating results, budget projections and the general outlook for the industry and markets in which the CGU operates. The projections are prepared separately for each of the Company's CGU groups to which the individual assets are allocated and are based on the Company's most recent projections. The after-tax discount rate is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an entity-specific risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

As a result of the test, the Company recorded a goodwill impairment loss of $44,799 for the period ended February 1, 2020 (period ended February 2, 2019 – $nil), pertaining to the Direct-to-Consumer CGU.

The Company has performed a sensitivity test with respect to the Direct-to-Consumer CGU group over key assumptions for the period ended February 1, 2020, assuming all other variables remained constant. The Company noted a 50 basis point change in the after-tax discount rate would impact the impairment charge by approximately $9,000, or a 50 basis point change in annual store sales growth would impact the impairment charge by approximately $8,000.

## 9. 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 assets and 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.

There were no transfers between levels of the fair value hierarchy for the periods ended February 1, 2020 and ended February 2, 2019.

The Company enters into forward contracts from time to time to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at February 1, 2020, the Company had outstanding forward contracts to buy US$44,885 (February 2, 2019 – US$42,460) at an average forward rate of 1.33 (February 2, 2019 – 1.30).

For the periods ended February 1, 2020 and February 2, 2019, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a gain of $425 (net of tax - $312) and a gain of $3,538 (net of tax – $2,595), respectively, which were recorded in other comprehensive income (loss).

### 10. Leases

The Company leases various store locations, a head office, a distribution warehouse, a manufacturing facility and equipment under non-cancellable operating lease agreements. Retail stores typically have a contractual period of 5 to 10 years with additional renewal terms available thereafter.

(a) Right-of-use assets

The following table reconciles the changes in right-of-use assets for the year ended February 1, 2020:

| | Right-of-use assets |
|---|---|
| **Cost** | |
| Balance, February 3, 2019 | $ 137,294 |
| Additions | 16,902 |
| Adjustments | 8,832 |
| Tenant allowances | (6,530) |
| Balance, February 1, 2020 | $ 156,498 |
| **Accumulated amortization and impairment losses** | |
| Balance, February 3, 2019 | $ – |
| Depreciation | 24,961 |
| Impairment losses (Note 6) | 3,215 |
| Balance, February 1, 2020 | $ 28,176 |
| **Carrying amount** | |
| February 1, 2020 | $ 128,322 |

Under IAS 17, as at February 2, 2019, the carrying amount of finance lease assets of $794 were presented in fixed assets in Note 6.

(b) Lease liabilities

The following table reconciles the changes in lease liabilities for the period ended February 1, 2020:

| | Lease liabilities |
|---|---|
| Balance, February 3, 2019 | $ 149,920 |
| Additions | 16,902 |
| Adjustments | 8,312 |
| Tenant allowances | (6,530) |
| Interest expense on lease liabilities (Note 11) | 9,048 |
| Repayment of interest and principal on lease liabilities, net of tenant allowance | (26,493) |
| Balance, February 1, 2020 | $ 151,159 |

Recorded in the consolidated statement of financial position as follows:

| | |
|---|---|
| Current portion of lease liabilities | $ 26,569 |
| Long-term portion of lease liabilities | 124,590 |
| | $ 151,159 |

Under IAS 17, as at February 2, 2019, finance lease obligations of $504 were presented in finance lease obligations within the consolidated statement of financial position.

(c) Commitments

The following is summary of the Company's future undiscounted contractual lease payments:

| | |
|---|---|
| 2020 | $ 30,787 |
| 2021 | 28,185 |
| 2022 | 26,174 |
| 2023 | 24,893 |
| 2024 | 20,458 |
| Thereafter | 59,913 |
| Total | $ 191,410 |

The Company also has a future undiscounted cash flow of $1,703 related to leases not yet commenced but committed to.

Under IAS 17, as at February 2, 2019, the undiscounted future minimum lease payments were $197,588. During the period ended February 2, 2019, the Company recognized $26,340 of operating lease rent expense in selling, general and administrative expenses.

(d) Variable Lease Payments

The Company makes variable lease payments for property tax and insurance charges on leased properties. The Company has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. During the period ended February 1, 2020, $10,758 was recognized in selling, general and administrative expenses related to these variable lease arrangements.

(e) Sublease

Finance lease receivable is included in lease receivable on the Company's consolidated statement of financial position. During the period ended February 1, 2020, the Company recognized sublease income of $501.

Under IAS 17, as at February 2, 2019, the Company did not classify any subleases as finance leases.

## 11. Long-term debt

The Company has a secured credit agreement ("Credit Agreement") with a syndicate of lenders consisting of a term loan ("Term Credit Facility") and a revolving credit loan ("Revolving Credit Facility", and, together with the Term Credit Facility, the "Credit Facilities").

On April 23, 2019, the Company amended the Credit Facilities to increase the availability under the Revolving Credit Facility to an amount not exceeding $75,000, less the aggregate swing line loan of $10,000. The amendment also adjusted certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. The Company incurred $163 of costs associated with the amendment, which have been recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The Credit Facilities mature on September 6, 2022. See also Note 20 – Subsequent events.

The following table reconciles the changes in cash flows from financing activities for long-term debt for the periods ended February 1, 2020 and February 2, 2019:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Long-term debt, beginning of period | $ 85,015 | $ 84,465 |
| Long-term debt repayments of Term Credit Facility | (4,984) | (4,984) |
| Long-term debt financing costs | (163) | (66) |
| Long-term debt proceeds from Revolving Credit Facility | 9,000 | 5,000 |
| Total cash flow from long-term debt financing activities | 88,868 | 84,415 |
| Amortization of long-term debt financing costs | 644 | 600 |
| Total non-cash long-term debt activity | 644 | 600 |
| Total long-term debt, end of period | $ 89,512 | $ 85,015 |
| Recorded in the consolidated statement of financial position as follows: | | |
| Current portion of long-term debt | $ 4,984 | $ 4,984 |
| Long-term portion of long-term debt | 84,528 | 80,031 |
| | $ 89,512 | $ 85,015 |

As at February 1, 2020, principal repayments due on long-term debt were as follows:

| | Term Credit Facility | Revolving Credit Facility |
|---|---|---|
| Within 1 year | $ 4,984 | $ – |
| Within 1 - 2 years | 4,984 | – |
| Within 2 - 3 years | 67,247 | 14,000 |
| Within 3 - 4 years | – | – |
| Total[1] | $ 77,215 | $ 14,000 |

(1) Total long-term debt of $89,512 is net of $1,703 unamortized long-term debt financing costs.

Total interest expense for the period ended February 1, 2020 was $15,567 (period ended February 2, 2019 – $5,171) and was comprised of:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Interest paid on long-term debt | $ 5,688 | $ 4,468 |
| Interest paid on lease liabilities (Note 10) | 9,048 | – |
| Amortization of long-term debt financing costs | 644 | 600 |
| Other | 187 | 103 |
| Interest Expense | $ 15,567 | $ 5,171 |

## 12. Share capital

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.

There were no dividends or distributions declared during the periods ended February 1, 2020 and February 2, 2019.

During the period ended February 1, 2020, 4,220 Shares were issued from treasury, as a result of the exercise of 4,220 restricted share units ("RSUs") granted under the Omnibus Plan (see Note 14). During the period ended February 2, 2019, 139,731 Shares were issued from treasury, as a result of the exercise of 139,731 stock options granted under the Legacy Equity Incentive Plan (see Note 14).

As at February 1, 2020, there were 42,124,451 Shares (February 2, 2019 – 42,120,231 Shares) and nil preferred shares (February 2, 2019 – nil 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 1, 2020 | | February 2, 2019 | |
|---|---|---|---|---|
| | Number of Shares | Share capital | Number of Shares | Share capital |
| Outstanding Shares, beginning of period | 42,120,231 | $ 196,853 | 41,980,500 | $ 195,994 |
| Issuance of Shares | 4,220 | 50 | 139,731 | 859 |
| Outstanding Shares, end of period | 42,124,451 | $ 196,903 | 42,120,231 | $ 196,853 |

## 13. Earnings (loss) per Share

The Company presents basic and diluted EPS data for its Shares. Basic EPS is calculated by dividing net income (loss) by the weighted average number of Shares outstanding during the period. Diluted EPS is determined by adjusting net income (loss) 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 1, 2020 | February 2, 2019 |
|---|---|---|
| Weighted average Shares outstanding | 42,122,962 | 42,057,881 |
| Stock options | – | 496,275 |
| Dilutive weighted average Shares outstanding | 42,122,962 | 42,554,156 |

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Net income (loss) | $ (62,029) | $ 11,400 |
| Basic earnings (loss) per Share | $ (1.47) | $ 0.27 |
| Diluted earnings (loss) per Share | (1.47) | 0.27 |

For the periods ended February 1, 2020 and February 2, 2019, nil and 1,850,841 performance-based stock options, respectively, were not included in the calculation of basic or diluted EPS as the conditions required to convert these stock options to Shares were not met. See Note 14 for more information regarding these stock options.

For the periods ended February 1, 2020 and February 2, 2019, 1,198,737 and 250,538 time-based stock options, respectively, were not included in the calculation of basic or diluted EPS as they were anti-dilutive or not 'in-the-money'.

For the periods ended February 1, 2020 and February 2, 2019, 183,780 and nil RSUs, respectively, were not included in the calculation of basic or diluted EPS as they were anti-dilutive.

### 14. 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 1, 2020, approximately 1.2 million stock options and 0.2 million RSUs were granted and outstanding.

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

| For the period ended February 1, 2020 | 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 | 2,375,884 | $ 4.78 | 465,858 | $ 6.26 | 421,523 | $ 12.01 | 3,263,265 | $ 5.93 |
| Granted | – | – | – | – | 808,105 | 4.30 | 808,105 | 4.30 |
| Forfeited | (2,154,953) | 4.79 | (21,419) | 6.26 | (696,261) | 7.53 | (2,872,633) | 5.47 |
| Outstanding options, end of period | 220,931 | $ 4.67 | 444,439 | $ 6.26 | 533,367 | $ 6.16 | 1,198,737 | $ 5.92 |
| Exercisable options, end of period | 130,765 | $ 4.67 | 296,300 | $ 6.26 | 44,476 | $ 11.87 | 471,541 | $ 6.35 |

| For the period ended February 2, 2019 | 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 | 497,986 | $ 6.26 | 300,649 | $ 11.87 | 3,314,250 | $ 5.64 |
| Granted | – | – | – | – | 131,282 | 12.39 | 131,282 | 12.39 |
| Exercised | (139,731) | 4.67 | – | – | – | – | (139,731) | 4.67 |
| Forfeited | – | – | (32,128) | 6.26 | (10,408) | 12.93 | (42,536) | 7.89 |
| Outstanding options, end of period | 2,375,884 | $ 4.78 | 465,858 | $ 6.26 | 421,523 | $ 12.01 | 3,263,265 | $ 5.93 |
| Exercisable options, end of period | 240,768 | $ 4.82 | 155,288 | $ 6.26 | 42,296 | $ 11.69 | 438,352 | $ 5.99 |

The fair value of stock options granted during the period ended February 1, 2020 was $1,211 (period ended February 2, 2019 – $517).

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 1, 2020 | February 2, 2019 |
|---|---|---|
| Expected volatility | 33.0% - 34.1% | 27.0% - 32.5% |
| Share price at grant date | $3.28 - $4.51 | $7.06 - $13.07 |
| Exercise price | $3.28 - $4.51 | $7.06 - $13.07 |
| Risk-free interest rate | 1.34% - 1.60% | 2.21% - 2.27% |
| Expected term | 5.5 years - 6.5 years | 6 years – 6.5 years |
| Fair value per option | $1.10 - $1.63 | $2.52 - $4.38 |

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.

The following is a summary of the Company's RSU and deferred share unit ("DSU") activity:

| For the period ended February 1, 2020 | Legacy Equity Incentive Plan | Omnibus Plan | DSU Plan | Total | |
|---|---|---|---|---|---|
| | Number of RSUs | Number of RSUs | Number of DSUs | Number of RSUs | Number of DSUs |
| Units, beginning of period | 15,985 | 43,087 | 34,237 | 59,072 | 34,237 |
| Granted | – | 243,313 | 141,916 | 243,313 | 141,916 |
| Exercised | – | (4,220) | – | (4,220) | – |
| Forfeited | – | (114,385) | – | (114,385) | – |
| Units, end of period | 15,985 | 167,795 | 176,153 | 183,780 | 176,153 |

| For the period ended February 2, 2019 | Legacy Equity Incentive Plan | Omnibus Plan | DSU Plan | Total | |
|---|---|---|---|---|---|
| | Number of RSUs | Number of RSUs | Number of DSUs | Number of RSUs | Number of DSUs |
| Units, beginning of period | 15,985 | – | – | 15,985 | – |
| Granted | – | 47,296 | 34,237 | 47,296 | 34,237 |
| Forfeited | – | (4,209) | – | (4,209) | – |
| Units, end of period | 15,985 | 43,087 | 34,237 | 59,072 | 34,237 |

The fair value of RSUs granted during the period ended February 1, 2020 was $1,068 (period ended February 2, 2019 – $581). There were 15,985 RSUs vested as at February 1, 2020 (February 2, 2019 – 15,985). The fair value of DSUs granted during the period ended February 1, 2020 was $469 (period ended February 2, 2019 – $291).

The fair values of RSUs and DSUs granted are calculated based on the closing price of a Share on the TSX on the last trading date immediately prior to the date of grant.

The grant date fair value of share-based compensation awards granted to employees is recognized as share-based compensation expense, recorded in selling, general and administrative expenses with a corresponding increase to contributed surplus, over the period that the employees unconditionally become entitled to the awards. The following is a summary of the Company's share-based compensation expense:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Legacy Equity Incentive Plan | $ (1,136) | $ 850 |
| Legacy Employee Option Plan | 259 | 765 |
| Omnibus Plan | 359 | 892 |
| Total share-based compensation expense | $ (518) | $ 2,507 |

The share-based compensation recovery recorded for the period ended February 1, 2020 was driven by cancellation of unvested stock options and RSUs, primarily as result of the departure of certain key management personnel, including the Company's former Chief Executive Officer, Chief Financial Officer, and Chief Merchants.

## 15. 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 the Credit Facilities, as described in Note 11, allowing it to access funds for operations. Please also see Note 1 (f) for discussion on liquidity risk surrounding the business uncertainties related to COVID-19.

The contractual maturities of the Company's current and long-term financial liabilities as at February 1, 2020, 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** | | | | | | |
| Bank indebtedness | $ 7,226 | $ 7,226 | $ – | $ – | $ 7,226 | $ – |
| Accounts payable and accrued liabilities | 20,252 | 20,252 | 20,252 | – | – | – |
| Long-term debt | 89,512 | 91,215 | 4,984 | 86,231 | | – |
| Lease liabilities | 151,159 | 190,410 | 30,787 | 54,359 | 45,351 | 59,913 |
| | $ 268,149 | $ 309,103 | $ 56,023 | $ 140,590 | $ 52,577 | $ 59,913 |

(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 period ended February 1, 2020 by $256 (period ended February 2, 2019 – $308), 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 remain constant, would have changed other comprehensive income for the period ended February 1, 2020 by $2,949 (period ended February 2, 2019 – $2,748), as a result of the revaluation on the Company's forward contracts.

(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 period ended February 1, 2020 by $1,152 (period ended February 2, 2019 – $1,072).

(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, lease 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 consists primarily of receivables from business partners in the Partners and Other operating segment, which are settled in the following fiscal quarter.

As at February 1, 2020, the Company's maximum exposure to credit risk for these financial instruments was as follows:

| | | |
|---|---|---|
| Loans receivable | $ | 585 |
| Lease receivable | | 1,511 |
| Accounts receivable, excluding allowance for doubtful accounts | | 7,284 |
| | $ | 9,380 |

(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 net income (loss) before interest expense, income taxes expense (recovery) and depreciation and amortization ("EBITDA") as a measure of its ability to service its debt and meet other financial obligations as they become due.

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 1, 2020, the Company was in compliance with its covenants under the Credit Facilities. Also see Note 20 – Subsequent events.

## 16. Income taxes expense (recovery)

The Company's income taxes expense (recovery) comprises the following:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Current income taxes expense (recovery) | $ (2,237) | $ 3,960 |
| Deferred income taxes expense (recovery): | | |
| Origination and reversal of temporary differences | (8,219) | 1,169 |
| Total income taxes expense (recovery) | $ (10,456) | $ 5,129 |

The effective income tax (recovery) rate in the consolidated statement of net income (loss) and statement of comprehensive income (loss) was reported at rates different than the combined basic Canadian federal and provincial average statutory income tax rates, as follows:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Combined basic federal and provincial average statutory tax (recovery) rate | (26.7)% | 26.7% |
| Non-deductible expenses | 4.2% | 4.3% |
| Non-taxable income | (0.2)% | – |
| Change in unrecognized deferred tax assets | 8.3% | – |
| Effective tax (recovery) rate | (14.4)% | 31.0% |

The non-deductible expenses for income tax purposes primarily relate to meals and entertainment and share-based compensation expense.

The non-taxable income for income tax recovery purposes primarily relate to reversal of share-based compensation expense on the cancellation of stock options and RSUs (see Note 14).

Deferred tax assets have not been recognized in respect of the following items:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Deductible temporary differences | $ 15,594 | $ – |
| Tax losses | 6,838 | – |
| | $ 22,432 | $ – |

Deferred tax assets have not been recognized in respect of these items, pertaining to Roots USA Corporation, as it is not probable that sufficient taxable profit will be available in the future to utilize the benefits. The tax losses begin to expire in 2030.

The following tables outline the movements in deferred tax liabilities balance associated with:

| | As at February 2, 2019 | IFRS 16 Transition Adjustments | Expense (Recovery) | Other Comprehensive Loss | As at February 1, 2020 |
|---|---|---|---|---|---|
| Deferred financing costs | $ 37 | $ – | $ 64 | $ – | $ 101 |
| Deferred lease costs | (629) | 629 | – | – | – |
| Fixed assets | (85) | – | 381 | – | 296 |
| Right-of-use assets and lease liabilities | – | (1,089) | (1,414) | – | (2,503) |
| Intangible assets and goodwill | 23,341 | – | (7,250) | – | 16,091 |
| Derivative obligations | 97 | – | – | (140) | (43) |
| | $ 22,761 | $ (460) | $ (8,219) | $ (140) | $ 13,942 |

| | As at February 4, 2018 | Expense (Recovery) | Other Comprehensive Loss | As at February 2, 2019 |
|---|---|---|---|---|
| Deferred financing costs | $ (31) | $ 68 | $ – | $ 37 |
| Deferred lease costs | (637) | 8 | – | (629) |
| Fixed assets | 638 | (723) | – | (85) |
| Intangible assets and goodwill | 21,525 | 1,816 | – | 23,341 |
| Derivative obligations | (329) | – | 426 | 97 |
| | $ 21,166 | $ 1,169 | $ 426 | $ 22,761 |

## 17. 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, accrued for based on management's best estimate of economic outflows required to settle the claims and suits, or are not expected to materially affect the Company's financial position.

In addition, the Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. The Company is not aware of any potential liabilities from any reassessments, nor any other liabilities that may arise from the tax positions taken.

## 18. Personnel expenses

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Wages and salaries | $ 56,115 | $ 56,699 |
| Benefits and other incentives | 9,129 | 10,400 |
| | $ 65,244 | $ 67,099 |

## 19. 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 48.7% of the total issued and 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% of the total issued and outstanding Shares. All transactions as described in the table 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 one of its principal shareholders:

| | February 1, 2020 | February 2, 2019 |
|---|---|---|
| Rent(1) | $ 616 | $ 794 |

(1) The Company leases the building for its manufacturing facility and, until August 2019, leased the building for its former distribution centre, from companies that are under common control of the Founders. Figures include rent expenses as they relate to the lease of these properties.

(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 1, 2020 | February 2, 2019 |
|---|---|---|
| Salaries, benefits and incentives, and consulting fees | $ 3,875 | $ 4,614 |
| Management share-based compensation | (1,003) | 1,871 |
| Director fees | 548 | 512 |
| | $ 3,420 | $ 6,997 |

In addition to the transactions noted above, on August 6, 2019, Meghan Roach, a managing director of Searchlight, was appointed as Interim Chief Financial Officer on a temporary secondment basis. Subsequent to the appointment of a new CFO, on January 6, 2020, Ms. Roach was appointed to the role of Interim Chief Executive Officer on a temporary secondment basis, while the Company conducts a formal executive search to identify a permanent Chief Executive Officer. Ms. Roach has provided her services at no cost to the Company.

In February 2016, a former 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 4.0% 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 1, 2020, the outstanding balance on the loan was $585 (February 2, 2019 – $562). The officer resigned from the Company effective August 9, 2019.

## 20. Subsequent events

In March 2020, in response to the COVID-19 global emergency, the Company temporarily closed all its corporate retail stores in Canada and the United States, and temporarily closed or reduced capacity at other facilities in its supply chain and distribution channels, prioritizing the health and safety of its customers and employees and to help manage the spread of the virus. As a result, the Company made the very difficult decision to temporarily lay off its store and leather factory employees. The Company will continue to comply with the laws of each of the regions in which it operates, and to evaluate the appropriate time to reopen its stores as the situation evolves.

Our consolidated financial results in fiscal 2020 will be materially negatively impacted by this event. The Company has substantially reduced costs and capital expenditures across all areas of the business and is actively managing liquidity. The Board of Directors and Roots senior leadership team have temporarily reduced their compensation and salaries, respectively, by a minimum of 25%, and all other head office salaries have been reduced as well. The Company has also reduced forward inventory purchases, minimized discretionary expenditures and effectively stopped capital spend. Additionally, the Company continues to work closely with its landlords, partners, suppliers, as well as service and logistics providers to identify further areas of cost reduction. The Company is evaluating all applicable government relief programs and will work with its lenders to manage covenant requirements during this pandemic period.

On March 27, 2020, the Company amended its Credit Agreement to adjust certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. The Company incurred $123 of costs associated with the amendment, which will be recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The $75,000 Revolver Credit Facility limit less the aggregate swing line loan of $10,000, and the September 6, 2022 maturity remains unchanged.

In March 2020, the Board made the decision to liquidate Roots USA Corporation, its U.S. subsidiary, through a Chapter 7 bankruptcy filing. The filing is expected to be made on April 29, 2020 and will result in the permanent closure of the Company's stores in Boston, Washington and Chicago, as well as its pop-up location in Woodbury Common, New York. Roots will maintain a presence in the U.S. market by continuing to operate two longstanding corporate retail stores in Michigan and Utah as well as its global eCommerce platform.

# Corporate Information

**Board of Directors**

Mary Ann Curran

Gregory David

Dale H. Lastman, C.M.

Richard P. Mavrinac

Joel Teitelbaum

Erol Uzumeri – Chairman

Eric Zinterhofer

**Executive Officers**

Meghan Roach
Interim Chief Executive Officer

Mona Kennedy
Chief Financial Officer

James Connell
Chief eCommerce and Customer Experience Officer

**Non-Executive Senior Management**

Anne Hodkin
Vice President, Information Strategy & Systems

Kaleb Honsberger
Vice President, General Counsel

Karl Kowalewski
Vice President, Leather Factory

Michelle Lettner
Vice President, Human Resources

Melinda McDonald
Vice President, Wholesale & Business Development

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**Share Information**
Shares in Roots Corporation are traded on the Toronto Stock Exchange (TSX) under the trading symbol “ROOT”

**Auditor**
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Toronto, ON

**Transfer Agent**
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