



# Roots

**Fiscal Year 2021 Report**  
52-Week period ended January 29, 2022



## ROOTS CORPORATION

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

(Fiscal Year Ended January 29, 2022)

The following Management's Discussion and Analysis ("**MD&A**") dated April 6, 2022 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 January 29, 2022. This MD&A should be read in conjunction with our audited consolidated financial statements for the fiscal year ended January 29, 2022, 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 2021**" are to our fiscal quarter for the 13-week period ended January 29, 2022, and all references to "**Q4 2020**" are to our fiscal quarter for the 13-week period ended January 30, 2021, and all references to "**Q4 2019**" are to our fiscal quarter for the 13-week period ended February 1, 2020. All references in this MD&A to "**F2021**" are to the 52-week fiscal year ended January 29, 2022, all references to "**F2020**" are to the 52-week fiscal year ended January 30, 2021, and all references to "**F2019**" are to the 52-week fiscal year ended February 1, 2020, and all references to "**F2018**" are to the 52-week fiscal year ended February 2, 2019.

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 6, 2022.

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 a further understanding of our results of operations from management's perspective. Accordingly, these measures are not intended to represent, and should not be considered as alternatives to, net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including "Adjusted DTC Gross Profit", "Adjusted DTC Gross Margin", "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", and "Adjusted Net Income per Share". This MD&A also refers to "Comparable Sales Growth (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. We may exclude additional items, from time to time, if we believe doing so would result in a more effective analysis of our underlying operating performance.

**"Adjusted DTC Gross Profit"** is a non-IFRS measure and is defined as gross profit in our direct-to-consumer ("**DTC**") segment, adjusted for the impact of non-cash provisions on inventory that are no longer aligned with our strategic product direction and other non-cash items and/or items that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods difficult. The IFRS measurement most directly comparable to Adjusted DTC Gross Profit is gross profit for the DTC segment.

**"Adjusted DTC Gross Margin"** is a non-IFRS ratio and is defined as Adjusted DTC Gross Profit, divided by sales in our DTC segment.

**"EBITDA"** is a non-IFRS measure and is defined as net income (loss) before interest expense, income taxes expense (recovery) and depreciation and amortization. The IFRS measurement most directly comparable to EBITDA is net income (loss).

**"Adjusted EBITDA"** is a non-IFRS measure and is defined as EBITDA, adjusted for the impact of certain items, including share-based compensation expense, asset impairment expense, purchase price accounting adjustments, executive recruitment and severance costs, Chapter 7 filing costs (as defined herein), provisions on inventory no longer aligned with our strategic product direction, and other non-cash items and/or items that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods

difficult. Adjusted EBITDA also excludes the impact of IFRS 16 – *Leases* (“**IFRS 16**”) and includes rent expense, a significant expense for our corporate retail stores. 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. The IFRS measurement most directly comparable to Adjusted EBITDA is net income (loss).

“**Adjusted Net Income**” is a non-IFRS measure and is defined as net income (loss), adjusted for the impact of certain items, including share-based compensation expense, asset impairment expense, purchase price accounting adjustments, executive recruitment and severance costs, Chapter 7 filing costs (as defined herein), provisions on inventory no longer aligned with our strategic product direction, and other non-cash items and/or items 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. Adjusted Net Income also excludes the impact of IFRS 16 and includes rent expense, a significant expense for our retail stores. We believe that Adjusted Net Income is useful, to both management and investors, in assessing the underlying performance of our ongoing operations. The IFRS measurement most directly comparable to Adjusted Net Income is net income.

“**Adjusted Net Income per Share**” is a non-IFRS ratio and is defined as Adjusted Net Income, divided by the weighted average Shares (as defined herein) outstanding during the periods presented. We believe that Adjusted Net Income per Share is useful, to both management and investors, in assessing the underlying performance of our ongoing operations, on a per share basis.

“**Comparable Sales Growth (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 open 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 fluctuations during store renovations and material external events and circumstances that make comparisons of year-over-year results less meaningful (including the impact of the COVID-19 pandemic, as further described below).

Comparable Sales Growth (Decline) also excludes the impact of foreign currency fluctuations 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. Our Comparable Sales Growth (Decline) may be calculated differently compared to other companies.

Commencing in the first quarter of F2020 (“**Q1 2020**”), the Company’s DTC segment was significantly impacted by COVID-19. Due to the ongoing negative impacts that COVID-19 has had on the apparel retail operating environment, including periods of temporary store closures, phased re-openings and retail store operating limitations, the Company does not believe that Comparable Sales Growth (Decline) is a representative metric of affected periods. Accordingly, this MD&A does not include a discussion of the Company’s Comparable Sales Growth (Decline). Management will continue to monitor and evaluate the effects of COVID-19 and will resume the

discussion of Comparable Sales Growth (Decline) when year-over-year results are no longer significantly impacted by COVID-19. See also “Key Business Developments – COVID-19”.

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](http://www.sedar.com) and on our website at [www.roots.com](http://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 global lifestyle brand. Starting from a small cabin in northern Canada, Roots has become a global brand, which as of January 29, 2022, operated 107 corporate retail stores and nine temporary pop-up locations in Canada, two corporate retail stores in the United States, and an eCommerce platform, [www.roots.com](http://www.roots.com), that serves over 55 international markets. We have more than 100 partner-operated stores in Asia, and we also operate a dedicated Roots-branded storefront on Tmall.com in China. We design, market, and sell a broad selection of products in different departments, including women's men's, children's, and gender-free apparel, leather goods, footwear, and accessories. Our products are built with uncompromising comfort, quality, and style that allows you to feel at home with nature. We offer products designed to meet life's everyday adventures and provide you with the versatility to live your life to the fullest. We also wholesale through business-to-business channels and license the brand to a select group of licensees selling products to major retailers.

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., former wholly-owned subsidiary Roots U.S.A., Inc. (refer to "Key Business Developments – RTS USA Corp. Chapter 7 Filing"), 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**"). Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada"

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

## **KEY BUSINESS DEVELOPMENTS**

### ***COVID-19***

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, leading many countries to take drastic measures to manage the spread of the virus. The worldwide pandemic, along with ongoing recommendations and restrictions imposed by government authorities to help curb the spread of COVID-19, has significantly impacted our operations and financial performance.

#### *Operational Response*

Since Q1 2020, in accordance with local government and health organization guidelines to manage the spread of the virus and prioritize the health and safety of customers and employees, we operated with physical distancing protocols and implemented intermittent periods of store closures, reduced store operating hours and reduced store capacities.

We entered F2021 having temporarily closed corporate retail stores within certain regions of Canada in response to a second wave of COVID-19 and resulting government-mandated

lockdowns. After the majority of our stores re-opened during the first quarter of F2021 (“**Q1 2021**”) we faced the third wave of COVID-19 in Canada and were required to temporarily close certain stores again in Québec, Ontario, and Nova Scotia. In Q1 2021, our stores were closed for 30% of the quarter in comparison to being closed for 50% of Q1 2020. Most of these stores were able to re-open during the second quarter of F2021 (“**Q2 2021**”) as the number of cases decreased and restrictions lifted in these regions. During Q2 2021 our stores were closed for 34% of the quarter in comparison to being closed for 39% of the second quarter of F2020 then largely remained open during the entire third quarter of F2021 and F2020, respectively.

During Q4 2021, all of our corporate retail stores remained open for the entire quarter, compared to only being open for 65% of Q4 2020. On average, during F2021, our corporate retail stores were closed for approximately 20% of the period, as compared to 30% of the period during F2020.

Several stores operated by our international operating partner experienced temporary store closures and/or restrictions and reduced operating hours in Q4 2021, as compared to all stores being open throughout Q4 2020. As of the end of F2021, our international operating partner had reopened all stores in the previously impacted regions.

As permitted by government regulations, we continued to operate our global eCommerce business and our distribution centre, with strict cleaning protocols and physical distancing measures in place, throughout the pandemic. We have also continued to operate our wholesale, business-to-business, and licensing business, as well as our head office functions, under a “work-from-home” model.

#### *Financial Performance & Liquidity Impact*

As a result of the significant negative impact that COVID-19 has had on the global economy, consumer confidence, and the retail operating environment, our consolidated financial results since F2020 have been significantly impacted. The temporary corporate retail store closures, adjusting consumer behaviours in response to COVID-19, capacity restrictions, and adherence to strict physical distancing practices since reopening have had a significant negative impact on our retail store sales compared to pre-pandemic periods. Store sales decline has been partially offset by an increase in eCommerce sales compared to pre-pandemic periods, as a result of our omni-channel platform.

Since March 2020, we have implemented many strategies to reduce costs and manage liquidity to overcome the negative impacts of the pandemic, including the following:

- Substantially reduced selling, general and administrative expenses (“**SG&A expenses**”), capital expenditures and discretionary spending across all areas of the business;
- Realized personnel cost savings related to temporary layoffs as a result of store closures, and specific to F2020, there were temporary reductions in compensation to the Board and head office employees, hiring and salary freezes, and the elimination of F2019 bonuses;
- Adjusted inventory purchase and on-hand inventory management strategies based on changes in the retail operating environment;
- Worked closely with our partners and suppliers, as well as service and logistics providers, to identify further areas of cost reduction and/or payment deferral;

- Worked with our landlords to abate or defer a portion of our corporate retail store rent during the store shut down and/or subsequent periods, and/or to permanently modify lease terms; and
- Evaluated, qualified and applied for applicable government relief programs, including the Canada Emergency Wage Subsidy (“**CEWS**”) program and the Canada Emergency Rent Subsidy (“**CERS**”) program. The amount of CEWS and CERS received has been largely tied to our revenue decline compared to pre-pandemic levels, and the corresponding subsidy rates as set by the government. The amount of CEWS and CERS that the Company has qualified for has decreased over time as sales continue to recover and as the government reduced the subsidy rates in respect of each program.

In F2021, the Company qualified for and recognized government grants of \$1,967 in CERS and \$5,932 in CEWS, as compared to \$696 in CERS and \$12,822 in CEWS in F2020. Of the total CEWS, \$4,773 was recorded as a reduction to SG&A expenses (F2020 – \$9,639), \$638 was recorded as a reduction to cost of goods sold (F2020 – \$1,607), and \$521 was recorded as a reduction to capitalized inventory manufacturing labour costs at our leather factory (F2020 – \$1,576). The Company also recognized \$1,400 as a reduction to cost of goods sold (F2020 – \$263) pertaining to CEWS previously received and recorded as a reduction of capitalized inventory manufacturing labour costs. All CERS was recorded as a reduction to SG&A expenses.

See note 20 in our Annual Financial Statements for further details.

As a result of the strategies mentioned above, we have reduced and managed our costs across all areas of the business and have effectively managed our liquidity.

As a result of global challenges related to the ongoing COVID-19 pandemic, the retail industry is facing industry-wide supply chain disruptions. To best mitigate the impact on our business, such as extended lead times and product shortages, we have implemented many strategies, including the following:

- Utilizing air freight and premium-rate ocean freight to reduce lead times for key seasonal programs;
- Leveraging existing freight contracts to secure freight capacity and reduce freight cost volatility;
- Working with suppliers to prioritize production of key product collections; and
- Strategically managing on-hand inventory, leveraging existing on-hand styles that have been packed and held until seasonally relevant, and adjusting promotional tactics.



## *Risks beyond F2021*

Based on events and circumstances known to us to date, we believe that:

- Consumer demand remains a risk amidst the uncertainty in the global economy, that could continue to negatively impact our DTC segment, as well as the businesses of our international operating partner and our North American wholesale and retail partners. Regions that previously had higher densities of tourism and/or commercial urban traffic may experience a greater negative impact and slower recovery from COVID-19;
- Physical distancing restrictions to protect the safety of our customers and employees may limit both the number of customers we can serve at our corporate retail stores during peak selling periods, and the volume of goods we are able to manufacture and fulfill through our leather factory and distribution centre, respectively. More severe government-imposed restrictions, including store capacity restrictions and future lockdowns, could further restrict our ability to service our customers;
- 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 and/or logistics providers. An increase in COVID-19 cases and/or government mandated closures at any stage of our supply chain network could limit the availability of inventory for sale. Increased market demand for certain raw materials and third-party services, and global inflationary impacts, may also increase our inventory costs and operating costs, and/or limit our ability to fulfill sales;
- We may face restrictions and/or additional costs in connection with the transport of goods from our international suppliers due to international restrictions on free movement and/or shortages in supply of overseas transportation;
- As a result of an increased demand for labour, we may face challenges attracting and retaining talent at our corporate retail stores, distribution centre, leather factory, and head office and, as a result, our labour costs may increase;
- Cases of COVID-19 infection that may arise at our corporate retail stores, leather factory, distribution centre, or head office may disrupt our operations, which could lead to lost sales and/or additional costs; and
- The costs of operating our corporate retail stores, leather factory and distribution centre may increase as a result of enhanced health and safety measures taken to protect our employees, including the provision of personal protective equipment.

While the full extent of the impact of COVID-19 on the Company's business remains unclear, we believe that the cost reductions and liquidity management strategies employed will partially mitigate the above risks to our financial performance. However, to the extent that COVID-19 continues, or further public restrictions are imposed by the government, the degree to which the Company's operations could be affected may increase.

## **RTS USA Corp. Chapter 7 Filing**

From F2018 to F2020, we opened seven corporate retail stores in the United States, including 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 (the “**New U.S. stores**”). We incurred losses in F2018 and F2019 pertaining to these stores and our corporate retail store on Elizabeth Street in New York that was closed in the third quarter of F2019 (“**Q3 2019**”), primarily driven by sales that were well below expectations.

On April 29, 2020, we announced the liquidation of our wholly-owned subsidiary formerly known as Roots USA Corporation (“**RTS USA Corp.**”), pursuant to Chapter 7 of Title 11 of the United States Code (the “**Chapter 7 filing**”). The Chapter 7 filing has resulted in the permanent closure of the New U.S. stores.

Under a Chapter 7 filing, control of RTS USA Corp. no longer rests with the Company, but rather with the court-appointed trustee in charge of administering the case. Accordingly, effective April 29, 2020, the Company no longer consolidated this wholly-owned subsidiary and has deconsolidated the assets and liabilities with respect to this subsidiary, resulting in the difference being recorded as a net gain of \$4,774 in the statement of net income in F2020.

In F2021 and F2020, we incurred \$131 and \$1,283, respectively, of costs associated with the Chapter 7 filing recorded in SG&A expenses. The costs were primarily related to professional service fees and other costs incurred in relation to the Chapter 7 filing.

In F2020, the Company incurred an Adjusted EBITDA loss of \$(2,144), pertaining to the operations of the New U.S. stores prior to their closure, compared to Adjusted EBITDA of \$nil in F2021.

We continue to believe in the U.S. market opportunity. However, the Adjusted EBITDA loss and the challenges in the discretionary retail environment that resulted from COVID-19 led us to believe that the permanent closure of these New U.S. stores was our best option. In the near-term, we believe a principally eCommerce-based distribution model is best to serve our U.S. customer base and strengthen our brand presence in the market. We will also continue to operate our two longstanding stores in Michigan and Utah, as both locations play important roles in our heritage and have well-established customer bases.

## **Real Estate**

During F2021, we relocated two corporate retail stores, opened two net new temporary pop-up locations in Ontario, and closed four corporate retail stores in Canada as we continue to optimize our real estate portfolio.

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

	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>F2021</b>	<b>F2020</b>
Number of stores, beginning of period .....	111	115	113	122
New stores .....	–	–	–	–
Permanently closed stores .....	2	2	4	9
<b>Number of stores, end of period .....</b>	<b>109</b>	<b>113</b>	<b>109</b>	<b>113</b>
Stores renovated or relocated .....	–	–	2	3
Temporary pop-up locations, in addition to above store count .....	9	7	9	7

We also have more than 100 partner-operated stores in Asia.

## **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 and Hong Kong. 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 strengthening 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 [www.roots.com](http://www.roots.com);
- obtain in-store inventory display on [www.roots.com](http://www.roots.com); and
- return goods seamlessly via any channel.

The success of our business is heavily dependent on our ability to continue to drive profitable sales in our DTC segment and to grow our omni-channel footprint. This includes enhancing our eCommerce capabilities and optimizing our corporate retail store footprint. Our ability to successfully execute our omni-channel strategy is an important driver of our longer-term growth.

As eCommerce becomes a larger component of our omni-channel footprint, we depend on third-party logistics partners 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. We continue to work with our third-party logistics partners to ensure that options are available in order to mitigate the risk of a disruption to delivery services.

Retail store distribution and eCommerce fulfillment are both completed at one single Roots-operated facility. Being able to fulfill centrally enables 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 to keep pace with our growth, could have a material adverse effect on our business and financial results. See also “Key Business Developments – COVID-19”.

### ***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 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. See also "Key Business Developments – COVID-19".

### ***Product Development and Merchandising***

Our sales are driven primarily from major Canadian markets during the 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 analytical 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. See also "Key Business Developments – COVID-19".

### ***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. We enter into hedging arrangements to mitigate a portion of the risk 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 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 .....	14%
Second fiscal quarter .....	14%
Third fiscal quarter .....	28%
Fourth fiscal quarter .....	44%
.....	<u>100%</u>

**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, rainfall, 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. Severe weather may also negatively impact our supply chain and result in delays in receiving inventory and fulfilling orders. 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.

**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.

**Global Geopolitical and Economic Environment**

Our business is also impacted by changes in the global geopolitical and economic landscapes that are beyond our control. Changes in geopolitical conditions could cause a disruption in our ability to operate within the affected markets. Worsening of economic conditions within the markets in which we operate, including increases to inflation rates, unemployment rates, interest rates, and consumer debt could limit the disposable income available to our customers. Volatility and uncertainty in both the geopolitical and economic landscapes could also reduce consumer confidence and reduce discretionary spending levels of consumers. We continue to closely

monitor geopolitical and global economic developments and will adjust our operations, where possible, to minimize the impact to our business.

## **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 the Company's sales from its Roots-branded storefront on business-to-consumer marketplace website Tmall.com in China, royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

Our DTC and Partners and Other segments contributed 86.1% and 13.9% of our sales, respectively, in F2021 (F2020 – 86.6% and 13.4% of our sales, respectively).

## **SUMMARY OF FINANCIAL PERFORMANCE**

Since Q1 2020, our results have been significantly impacted by the effects of COVID-19; however, we have continued to focus on profitable growth by elevating our brand and strengthening the fundamentals of our business. As part of this, we have continuously reduced the depth and breadth of promotional activity by reducing the discount levels, lessening the number of promotional days and tightening inventory management to increase full price selling. For example, we have significantly reduced the number of store-wide promotional days, from 213 promotional days in F2019 to 140 days in F2020, down to only 23 in F2021. Furthermore, we have continued to optimize our store fleet, operating with four fewer corporate retail stores than F2020 and 13 fewer than F2019. While we expect that these strategies have placed some downward pressure on sales in the short-term and have made F2019 sales figures less comparable, we believe they continue to benefit the brand and profitability of the business over the long term.

The benefits of our promotion reduction and store fleet optimization strategies are evidenced by significant improvements in DTC gross margin, increasing by 640 basis points ("**bps**"), from 56.2% in F2019 to 62.6% in F2021. The focus on profitable growth has also helped drive scaling of store and eCommerce operating costs within SG&A expenses.

While we continue to focus on our long-term strategies, we continue to face short-term challenges and one-time impacts to our financial results. As of Q4 2021, although we continue to see positive sales recovery trends as the pressures of COVID-19 have been easing on the economy, we still have moderated traffic in our stores, particularly in urban and tourist locations. Additionally, we are facing inventory receipt delays and higher freight costs as a result of ongoing industry-wide supply chain disruptions, and increasing costs as a result of higher inflation. These impacts have put downward pressure on our sales and DTC gross margins and have increased our operating costs, which are expected to continue into 2022.

Since Q1 2020, we have also benefitted from government subsidies and temporary occupancy cost abatements negotiated with our landlords to help address the negative economic impacts of

COVID-19. As government restrictions lift and the economies in which we operate have begun to recover, the amount of government subsidies and occupancy cost abatements received have decreased and are not expected to continue beyond F2021.

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.

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

CAD \$000s (except per share data)	Q4 2021	Q4 2020	F2021	F2020
<b>Statement of Net Income Data:</b>				
Sales .....	121,294	99,397	273,834	240,506
Gross profit .....	72,352	58,854	162,857	139,739
Gross margin .....	59.7%	59.2%	59.5%	58.1%
Selling, general and administrative expenses .....	45,688	39,009	122,850	114,807
Gain from deconsolidation of RTS USA Corp. <sup>(1)</sup> .....	–	–	–	4,774
Net income .....	18,111	12,344	22,763	13,080
Basic earnings per Share .....	\$0.43	\$0.29	\$0.54	\$0.31
Diluted earnings per Share .....	\$0.42	\$0.29	\$0.53	\$0.31
<b>Non-IFRS Measures and Other Performance Measures:</b>				
Corporate retail stores, end of period .....	109	113	109	113
Adjusted DTC Gross Profit <sup>(2)</sup> .....	68,266	55,681	148,115	128,142
Adjusted DTC Gross Margin <sup>(2)</sup> .....	61.7%	60.7%	62.8%	61.5%
EBITDA <sup>(2)</sup> .....	34,055	28,506	70,001	63,031
Adjusted EBITDA <sup>(2)</sup> .....	30,621	26,091	50,139	38,748
Adjusted Net Income <sup>(2)</sup> .....	20,258	16,272	27,473	16,511
Adjusted Net Income per Share <sup>(2)</sup> .....	\$0.48	\$0.39	\$0.65	\$0.39

Note:

(1) See “Key Business Developments - RTS USA Corp. Chapter 7 Filing”.

(2) Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, EBITDA, 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 and “Reconciliation of Non-IFRS Measures” for reconciliation of these measures.

### ***Selected Financial Results for Q4 2021 Compared to Q4 2020***

- Total sales increased by \$21,897, or 22.0%, to \$121,294 in Q4 2021, from \$99,397 in Q4 2020.
  - DTC sales increased by \$18,844, or 20.5%, to \$110,605 in Q4 2021, from \$91,761 in Q4 2020.
  - Partners and Other sales increased by \$3,053, or 40.0%, to \$10,689 in Q4 2021, from \$7,636 in Q4 2020.
- Gross profit increased by \$13,498, or 22.9%, to \$72,352 in Q4 2021, from \$58,854 in Q4 2020.
  - DTC gross profit increased by \$12,955, or 23.6%, to \$67,801 in Q4 2021, and as a percentage of sales (“**DTC gross margin**”) increased to 61.3% in Q4 2021, from 59.8% in Q4 2020.
- SG&A expenses increased by \$6,679, or 17.1%, to \$45,688 in Q4 2021, from \$39,009 in Q4 2020.
- Adjusted EBITDA<sup>(1)</sup> increased by \$4,530, or 17.4%, to \$30,621 in Q4 2021, from \$26,091 in Q4 2020.
- Net income increased by \$5,767, or 46.7%, to \$18,111 in Q4 2021, from \$12,344 in Q4 2020.
- Adjusted Net Income<sup>(1)</sup> increased by \$3,986, or 24.5%, to \$20,258 in Q4 2021, from \$16,272 in Q4 2020.
- Basic earnings per Share increased to \$0.43 in Q4 2021, from \$0.29 in Q4 2020.
- Adjusted Net Income per Share<sup>(1)</sup> increased to \$0.48 in Q4 2021, from \$0.39 in Q4 2020.

### ***Selected Financial Results for F2021 Compared to F2020***

- Total sales increased by \$33,328, or 13.9%, to \$273,834 in F2021, from \$240,506 in F2020.
  - DTC sales increased by \$27,607, or 13.3%, to \$235,837 in F2021, from \$208,230 in F2020.
  - Partners and Other sales increased by \$5,721, or 17.7%, to \$37,997 in F2021, from \$32,276 in F2020.
- Gross profit increased by \$23,118, or 16.5%, to \$162,857 in F2021, from \$139,739 in F2020.
  - DTC gross profit increased by \$20,388, or 16.0%, to \$147,650 in F2021, and DTC gross margin increased to 62.6% in F2021, from 61.1% in F2020.
- SG&A expenses increased by \$8,043, or 7.0%, to \$122,850 in F2021, from \$114,807 in F2020.



- No gains or losses were recorded in F2021 related to the deconsolidation of RTS USA Corp., compared to a \$4,774 gain in F2020. See “Key Business Developments – RTS USA Corp. Chapter 7 Filing”.
- Adjusted EBITDA<sup>(1)</sup> increased by \$11,391, or 29.4%, to \$50,139 in F2021, from \$38,748 in F2020. Adjusted EBITDA was 18.3% of sales in F2021, increasing from 16.1% of sales in F2020.
- Net income increased by \$9,683, or 74.0%, \$22,763 in F2021, from \$13,080 in F2020.
- Adjusted Net Income<sup>(1)</sup> increased by \$10,962, or 66.4%, to \$27,473 in F2021, from \$16,511 in F2020. Adjusted Net Income was 10.0% of sales in F2021, increasing from 6.9% of sales in F2020.
- Basic earnings per Share increased to \$0.54 in F2021, from \$0.31 in F2020.
- Adjusted Net Income per Share<sup>(1)</sup> increased to \$0.65 in F2021 from \$0.39 in F2020.

Note:

- (1) 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 and “Reconciliation of Non-IFRS Measures” for reconciliation of these measures.

## 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 includes 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 historical return rate trends for retail stores and eCommerce sales, respectively.

Sales in our Partners and Other segment consist primarily of the wholesale of Roots-branded products to our international operating partner. The Partners and Other segment also includes the Company’s sales from its Roots-branded storefront on business-to-consumer marketplace website Tmall.com in China, 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. 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 sales less cost of goods sold. Cost of goods sold includes the cost of purchasing 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. The CEWS recognized on behalf of our distribution centre and leather factory employee compensation has been recorded as an increase to gross profit.

Gross margin measures our gross profit as a percentage of sales.

Products purchased from our manufacturers are predominantly sourced in U.S. dollars which exposes our cost of goods sold to foreign currency fluctuations. The Company utilizes a hedging program to manage its 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, non-cash fixed asset and right-of-use (“ROU”) asset impairments, 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.

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.

SG&A expenses 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.

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.

The CEWS recognized relating to our corporate retail store and head office employee cost has been recorded as a reduction to the eligible remuneration expenses within SG&A expenses. The CERS recognized has been recorded as a reduction to certain property costs within SG&A expenses.

### **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. 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.

## **RESULTS OF OPERATIONS**

### **Analysis of Results for Q4 2021 as compared to Q4 2020 and F2021 as compared to F2020**

The following section provides an overview of our financial performance during Q4 2021 compared to Q4 2020 and during F2021 compared to F2020.

### **Sales**

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

<b>CAD \$000s</b>	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>% Change</b>	<b>F2021</b>	<b>F2020</b>	<b>% Change</b>
DTC .....	110,605	91,761	20.5%	235,837	208,230	13.3%
Partners and Other .....	10,689	7,636	40.0%	37,997	32,276	17.7%
<b>Total Sales .....</b>	<b>121,294</b>	<b>99,397</b>	<b>22.0%</b>	<b>273,834</b>	<b>240,506</b>	<b>13.9%</b>

Total sales were \$121,294 in Q4 2021 as compared to \$99,397 in Q4 2020, representing an increase of \$21,897, or 22.0%.

DTC sales increased \$18,844, or 20.5%, in Q4 2021 as compared to Q4 2020. The year-over-year increase in DTC sales was primarily driven by more full-price selling and growth in store sales, which were less impacted by COVID-19 related closures and restrictions during Q4 2021. Stores were open for the entirety of Q4 2021 as compared to being closed for 35% of Q4 2020. eCommerce sales continued to demonstrate growth over pre-pandemic levels even as the increase to in-store activity resulted in moderated demand online in comparison to Q4 2020.

Sales in the Partners and Other segment increased by \$3,053, or 40.0%, in Q4 2021 as compared to Q4 2020. The year-over-year increase reflects strength in the Company’s Asia business due to higher volumes and strong growth in sales of custom Roots-branded products to business clients.

Total sales were \$273,834 in F2021 as compared to \$240,506 in F2020, representing an increase of \$33,328, or 13.9%.

F2021 sales in the DTC segment increased by \$27,607, or 13.3%, as compared to F2020. The year-over-year increase in DTC sales was predominately driven by growth in store sales, which were less impacted by COVID-19 related closures during F2021 as compared to F2020, partially offset by our continued reduction in promotional days, down from 140 promotional days in F2020

to 23 in F2021. On average, our corporate retail stores were closed for approximately 20% of F2021 in comparison to approximately 30% of F2020. eCommerce sales continued to demonstrate growth over pre-pandemic levels even as the increase to in-store activity resulted in moderated demand online in comparison to F2020.

Sales in the Partners and Other segment increased by \$5,721, or 17.7%, during F2021 as compared to F2020. The increase in sales was partially offset by the unfavourable impact of \$1,811 in foreign exchange on U.S. dollar sales in F2021, relative to F2020. Excluding foreign exchange impacts, F2021 sales in the Partners and Other segment would have increased by \$7,532, or 23.3%, as compared to F2020. The year-over-year increase reflects strength in the Company's Asia business due to higher volumes, modifications to the financial terms of the agreement with our international operating partner, and strong growth in sales of custom Roots-branded products to business clients.

### **Gross Profit**

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

<b>CAD \$000s</b>	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>% Change</b>	<b>F2021</b>	<b>F2020</b>	<b>% Change</b>
DTC .....	67,801	54,846	23.6%	147,650	127,262	16.0%
Partners and Other .....	4,551	4,008	13.5%	15,207	12,477	21.9%
<b>Total Gross Profit .....</b>	<b>72,352</b>	<b>58,854</b>	<b>22.9%</b>	<b>162,857</b>	<b>139,739</b>	<b>16.5%</b>

<b>Gross profit as a percentage of sales</b>	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>F2021</b>	<b>F2020</b>
DTC .....	61.3%	59.8%	62.6%	61.1%
Partners and Other .....	42.6%	52.5%	40.0%	38.7%
<b>Total Gross Margin .....</b>	<b>59.7%</b>	<b>59.2%</b>	<b>59.5%</b>	<b>58.1%</b>

Gross profit was \$72,352 in Q4 2021, as compared to \$58,854 in Q4 2020, representing an increase of \$13,498, or 22.9%.

Gross profit in the DTC segment increased \$12,955, or 23.6%, in Q4 2021 as compared to Q4 2020. The increase in gross profit was driven by increased sales volumes and higher gross margin rates. DTC gross margin was 61.3% in Q4 2021, up from 59.8% in Q4 2020. The 150 bps improvement in gross margin primarily reflects the benefits of the Company's continued promotional discipline through a reduction in depth and breadth of promotions, as well as the favourable impact of foreign exchange rates on U.S. dollar purchases, and lower inventory provision recorded year-over-year. These factors were partially offset by higher freight costs associated with supply chain challenges which reduced DTC gross margin by 270 bps, as compared to Q4 2020. Gross margin also reflects the benefit of CEWS of \$127 recognized in DTC gross margin in Q4 2021, as compared to \$468 in Q4 2020 (See "Key Business Developments – COVID-19").

Gross profit in the Partners and Other segment increased by \$543, or 13.5%, in Q4 2021 as compared to Q4 2020. The increase in gross profit in the Partners and Other segment was driven by increased sales of custom Roots-branded products to business clients.

Gross profit was \$162,857 in F2021, as compared to \$139,739 in F2020, representing an increase of \$23,118, or 16.5%.

During F2021, gross profit in the DTC segment increased by \$20,388, or 16.0%, as compared to F2020. The increase in gross profit was driven by increased sales with a higher gross margin on those sales. DTC gross margin was 62.6% in F2021, up from 61.1% in F2020. The 150 bps improvement in gross margin primarily reflects the benefits of the Company's continued promotional discipline through a reduction in depth and breadth of promotions, as well as the favourable impact of foreign exchange rates on U.S. dollar purchases. These factors were partially offset by higher freight costs associated with supply chain challenges which reduced DTC gross margin by 190 bps, as compared to F2020. Gross margin also reflects the benefit of CEWS of \$2,038 recognized in F2021 DTC gross margin, as compared to \$1,870 in Q4 2020 (See "Key Business Developments – COVID-19").

During F2021, gross profit in the Partners and Other segment increased by \$2,730, or 21.9%, as compared to F2020. The increase in gross profit in the Partners and Other segment was driven by increased sales of custom Roots-branded products to business clients, higher wholesale order volumes with our operating partner in Taiwan, as well as a modification of financial terms of the agreement with them that resulted in higher wholesale sales margin. The increase in gross profit was partially offset by the unfavourable impact of foreign exchange rates on U.S. dollar sales.

### ***Selling, General and Administrative Expenses***

SG&A expenses were \$45,688 in Q4 2021 as compared to \$39,009 in Q4 2020, representing an increase of \$6,679, or 17.1%.

Excluding the year-over-year impacts of government subsidies and temporary occupancy-related abatements of \$2,009 and \$988, respectively, SG&A expenses increased by \$3,681 in Q4 2021, or 8.7% in comparison to Q4 2020. This increase in SG&A expenses was primarily driven by higher store payroll costs associated with stores being fully open and investments in talent and marketing, partially offset by a reduction in non-cash impairment charges.

SG&A expenses were \$122,850 during F2021 as compared to \$114,807 in F2020, representing an increase of \$8,043, or 7.0%.

Excluding the year-over-year impacts of government subsidies and temporary occupancy-related abatements of \$3,595 and \$2,370, respectively, SG&A expenses increased by \$2,078 in F2021, or 1.6%, in comparison to F2020. This increase in SG&A expenses was primarily driven by higher store payroll costs as stores faced less COVID-19 related closures, and investments in talent and marketing. The aforementioned costs were partially offset by reduced non-cash impairments, lower volume-driven eCommerce costs, and savings related to the F2020 New U.S. permanent store closures (see "Key Business Developments – RTS USA Corp. Chapter 7 Filing").

### ***Deconsolidation of RTS USA Corp.***

During F2020, the Company recorded a net gain of \$4,774, resulting from the deconsolidation of assets and liabilities of RTS USA Corp. subsequent to the Chapter 7 filing, compared to \$nil in F2021. See "Key Business Developments – RTS USA Corp. Chapter 7 Filing".

***Interest Expense***

Interest expense was \$2,021 in Q4 2021 as compared to \$2,421 in Q4 2020, representing a decrease of \$400, or 16.5%. During F2021, interest expense was \$8,808 as compared to \$11,741 in F2020, representing a decrease of \$2,933, or 25.0%. The decrease in interest expense for both Q4 2021 and F2021 primarily related to lower year-over-year drawings on our Revolving Credit Facility (as defined below), and lower interest from reduced lease liabilities. See “Indebtedness”.

***Income Taxes Expense***

Income taxes expense was \$6,532 in Q4 2021 as compared to \$5,080 in Q4 2020, representing an increase of \$1,452. The effective income tax rates for Q4 2021 and Q4 2020 were 26.5% and 29.2%, respectively. During F2021, income taxes expense was \$8,436 as compared to \$4,885 in F2020, representing an increase of \$3,551. The effective income tax rates for F2021 and F2020 were 27.0% and 27.2%, respectively.

The increase in income taxes expense was a result of higher income before taxes. The decrease in the effective tax rate was primarily attributable to lower expenses that were not deductible for tax purposes.

***Net Income***

Net income was \$18,111 in Q4 2021 as compared to \$12,344 in Q4 2020, representing an increase of \$5,767. During F2021, net income was \$22,763 as compared to \$13,080 in F2020, representing an increase of \$9,683. The increase in net income was a result of the factors described above.

## QUARTERLY FINANCIAL INFORMATION

The following table summarizes the results of our operations for the eight most recently completed fiscal quarters. This unaudited quarterly information 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.

<b>CAD \$000s (except per Share data)</b> (Unaudited)	<b>Q4 2021</b>	<b>Q3 2021</b>	<b>Q2 2021</b>	<b>Q1 2021</b>	<b>Q4 2020</b>	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>
<b>Sales</b>	<b>121,294</b>	<b>76,291</b>	<b>38,904</b>	<b>37,345</b>	<b>99,397</b>	<b>72,946</b>	<b>38,214</b>	<b>29,949</b>
<b>Net Income (Loss)</b> . . . . .	<b>18,111</b>	<b>10,766</b>	<b>(1,176)</b>	<b>(4,938)</b>	<b>12,344</b>	<b>10,341</b>	<b>(1,820)</b>	<b>(7,785)</b>
<b>Net Earnings (Loss) per Share:</b>								
Basic earnings (loss) per Share . . .	\$ 0.43	\$ 0.25	\$ (0.03)	\$ (0.12)	\$ 0.29	\$ 0.25	\$ (0.04)	\$ (0.18)
Diluted earnings (loss) per Share . .	\$ 0.42	\$ 0.25	\$ (0.03)	\$ (0.12)	\$ 0.29	\$ 0.24	\$ (0.04)	\$ (0.18)
<b>Store count</b>								
Corporate retail stores, end of period	109	111	111	113	113	115	115	116
Temporary pop-up locations, end of period . . . . .	9	10	11	6	7	5	1	1

See “Result of Operations” for discussion on Q4 2021 results.

## SUMMARY OF NON-IFRS MEASURES

The table below illustrates certain non-IFRS measures for the periods presented:

CAD \$000s (except per Share data)	Q4 2021	Q4 2020	F2021	F2020
Adjusted DTC Gross Profit	68,266	55,681	148,115	128,142
Adjusted DTC Gross Margin	61.7%	60.7%	62.8%	61.5%
EBITDA	34,055	28,506	70,001	63,031
Adjusted EBITDA	30,621	26,091	50,139	38,748
Adjusted Net Income	20,258	16,272	27,473	16,511
Adjusted Net Income per Share	\$0.48	\$0.39	\$0.65	\$0.39

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

## RECONCILIATION OF NON-IFRS MEASURES

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

CAD \$000s	Q4 2021	Q4 2020	F2021	F2020
<b>DTC gross profit</b>	<b>67,801</b>	<b>54,846</b>	<b>147,650</b>	<b>127,262</b>
<i>Add the impact of:</i>				
COGS: DC Relocation Project (a)	–	–	–	45
COGS: Inventory provision (b)	465	835	465	835
<b>Adjusted DTC Gross Profit</b>	<b>68,266</b>	<b>55,681</b>	<b>148,115</b>	<b>128,142</b>

CAD \$000s	Q4 2021	Q4 2020	F2021	F2020
<b>Net income</b>	<b>18,111</b>	<b>12,344</b>	<b>22,763</b>	<b>13,080</b>
<i>Add the impact of:</i>				
Interest expense (c)	2,021	2,421	8,808	11,741
Income taxes expense (c)	6,532	5,080	8,436	4,885
Depreciation and amortization (c)	7,391	8,661	29,994	33,325
<b>EBITDA</b>	<b>34,055</b>	<b>28,506</b>	<b>70,001</b>	<b>63,031</b>
<i>Adjust for the impact of:</i>				
COGS: DC Relocation Project (a)	–	–	–	45
COGS: Inventory provision (b)	465	835	465	835
SG&A: Rent expense excluded from net income due to IFRS 16 (c)	(5,709)	(5,883)	(23,445)	(25,631)
SG&A: IFRS 16: Impairment of ROU assets (c)	305	1,162	305	1,162
SG&A: Gain from the deconsolidation of RTS USA Corp. (d)	–	–	–	(4,774)
SG&A: Chapter 7 filing costs (d)	131	43	131	1,283
SG&A: Purchase accounting adjustments (e)	4	42	70	169
SG&A: Stock option expense (f)	23	176	656	705
SG&A: Fixed asset impairment (g)	344	886	344	886
SG&A: Changes in key personnel (h)	924	324	1,161	1,036
SG&A: Other non-recurring items (i)	79	–	451	1
<b>Adjusted EBITDA<sup>(k)</sup></b>	<b>30,621</b>	<b>26,091</b>	<b>50,139</b>	<b>38,748</b>



CAD \$000s	Q4 2021	Q4 2020	F2021	F2020
<b>Net income</b> .....	<b>18,111</b>	<b>12,344</b>	<b>22,763</b>	<b>13,080</b>
<i>Reverse the impact of IFRS 16:</i>				
Rent expense excluded from net income (c) .....	(5,709)	(5,883)	(23,445)	(25,631)
Depreciation on ROU assets (c) .....	4,518	5,620	18,373	21,047
Impairment on ROU assets (c) .....	305	1,162	305	1,162
Interest on lease liabilities (c) .....	1,252	1,466	5,360	6,724
Deferred tax impact (c) .....	(97)	(609)	(157)	(839)
Total IFRS 16 impacts reversed .....	269	1,756	436	2,463
<i>Add the impact of:</i>				
COGS: DC Relocation Project (a) .....	–	–	–	45
COGS: Inventory provision (b) .....	465	835	465	835
SG&A: Gain from the deconsolidation of RTS USA Corp. (d) .....	–	–	–	(4,774)
SG&A: Chapter 7 filing costs (d) .....	131	43	131	1,283
SG&A: Purchase accounting adjustments (e) .....	4	42	70	169
SG&A: Stock option expense (f) .....	23	176	656	705
SG&A: Fixed asset impairment (g) .....	344	886	344	886
SG&A: Changes in key personnel (h) .....	924	324	1,161	1,036
SG&A: Other non-recurring items (i) .....	79	–	451	1
SG&A: Amortization of intangible assets acquired by Searchlight (j) .....	576	575	2,298	2,302
Total adjustments .....	2,546	2,881	5,576	2,488
Tax effect of adjustments .....	(668)	(709)	(1,302)	(1,520)
<b>Adjusted Net Income<sup>(l)</sup></b> .....	<b>20,258</b>	<b>16,272</b>	<b>27,473</b>	<b>16,511</b>
<b>Adjusted Net Income per Share<sup>(m)</sup></b> .....	<b>\$0.48</b>	<b>\$0.39</b>	<b>\$0.65</b>	<b>\$0.39</b>

Notes:

- (a) In F2018, the Company commenced preparations for the relocation from two separate facilities – its legacy retail-only distribution centre and its third-party online order fulfillment and distribution facility – to a single fully-integrated Roots-operated distribution centre (the “DC Relocation Project”). During the period of transition which continued into F2020, the Company incurred expenses related to, among other things, training, testing and administrative costs in connection with the need to operate two distribution centres simultaneously. These expenses would not be incurred as part of normal business operations and are not recurring.
- (b) Represents a non-cash inventory provision on specific raw material and seasonal inventory styles that no longer align with the Company’s strategic product direction.
- (c) The impact of IFRS 16 in Q4 2021 and Q4 2020 was: (i) a decrease to SG&A expenses of \$886 and an increase to SG&A expenses of \$899, 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 \$1,252 and \$1,466, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$97 and \$609, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. The impact of IFRS 16 in F2021 and F2020 was: (i) a decrease to SG&A expenses of \$4,767 and \$3,422, respectively, which comprised the impact of depreciation on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of \$5,360 and \$6,724, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$157 and \$839, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded.
- (d) Under the Chapter 7 filing, control of RTS USA Corp. no longer rests with the Company, but rather with the court-appointed trustee in charge of administering the case. Accordingly, the Company is no longer consolidating the assets, liabilities, or operating results of RTS USA Corp. and recorded a net gain of \$4,774 in relation to the deconsolidation in F2020. In addition, the Company also incurred \$1,283 of costs in F2020 and \$131 in F2021, primarily associated to professional service fees and other costs incurred in relation to the Chapter 7 filing. In Management’s view, the gain arising from the deconsolidation of RTS USA Corp. and the Chapter 7 filing costs would not be incurred as part of normal business operations and are not recurring.
- (e) As a result of the Acquisition, the Company 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 Management’s 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.

- (f) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Equity Incentive Plan.
- (g) Represents a non-cash impairment charge (net of reversals) taken against certain fixed assets for stores where the recoverable amount is deemed to be below the carrying value.
- (h) 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.
- (i) Represents one-time costs associated with projects that Management has determined 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.
- (j) As a result of the Acquisition, intangibles relating to customer relationships of \$7,766 with a useful life of 10 years and licensing arrangements of \$25,910 with useful lives ranging from four to 13 years were recognized in accordance with IFRS 3, *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.
- (k) Adjusted EBITDA excludes the impact of IFRS 16. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2021 and F2021, Adjusted EBITDA would have been \$36,021 and \$73,209, respectively. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2020 and F2020, Adjusted EBITDA would have been \$30,771 and \$63,049, respectively.
- (l) Adjusted Net Income excludes the impact of IFRS 16. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2021 and F2021, Adjusted Net Income would have been \$19,986 and \$26,986, respectively. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2020 and F2020, Adjusted Net Income would have been \$14,486 and \$13,925, respectively.
- (m) Adjusted Net Income per Share has been calculated based on the weighted average number of Shares outstanding during the period. The weighted average number of Shares during Q4 2021 and F2021 was 42,218,446 and 42,221,249, respectively. The weighted average number of Shares during Q4 2020 and F2020 was 42,198,082 and 42,170,369, respectively.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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. In addition, these resources will enable us to comply with our financial covenants (see "Indebtedness"). 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 "Key Business Developments – COVID-19", "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 2021	Q4 2020	F2021	F2020
Cash flows from operating activities . . . . .	54,135	33,838	56,467	50,922
Cash flows used in financing activities . . . . .	(25,622)	(35,468)	(27,064)	(31,515)
Cash flows used in investing activities . . . . .	(1,167)	(497)	(4,408)	(3,964)
<b>Change in cash during the period . . . . .</b>	<b>27,346</b>	<b>(2,127)</b>	<b>24,995</b>	<b>15,443</b>

## **Analysis of Cash Flows for Q4 2021 and F2021 compared to Q4 2020 and F2020**

### ***Cash Flows from Operating Activities***

For Q4 2021 and F2021, cash flows from operating activities totalled \$54,135 and \$56,467, respectively, compared to \$33,838 and \$50,922 in Q4 2020 and F2020, respectively.

The year-over-year increase in cash flows from operating activities in Q4 2021 and F2021 is attributable to the increase in sales and overall operating income, and improvements to our working capital position primarily driven by reduction of inventory, partially offset by higher income taxes paid as a result of the higher operating income.

### ***Cash Flows used in Financing Activities***

For Q4 2021 and F2021, cash flows used in financing activities amounted to \$25,622 and \$27,064, respectively, compared to \$35,468 and \$31,515 in Q4 2020 and F2020, respectively.

The year-over-year decrease in cash flows used in financing activities in Q4 2021 and F2021 was largely driven by lower net repayments on our Credit Facilities (see “Indebtedness”), as a result of lower draws and higher operating income. This was partially offset by more cash paid on lease liabilities as a result of lower temporary rent abatements and the purchase of Shares for cancellation under our normal course issuer bid (“**NCIB**”), as described in note 11 of the Annual Financial Statements.

### ***Cash Flows used in Investing Activities***

For Q4 2021 and F2021, cash flows used in investing activities amounted to \$1,167 and \$4,408, respectively, compared to \$497 and \$3,964 in Q4 2020 and F2020, respectively. The increase in cash used in Q4 2021 and F2021 is primarily due to more capital projects undertaken as compared to F2020.

## 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 May 28, 2021, the Company amended its Credit Agreement to extend the original maturity date of September 6, 2022 to September 6, 2024 and reduced the \$75,000 Revolving Credit Facility to \$60,000. The Revolving Credit Facility continues to include the swing loan of \$10,000. In addition, the amendment adjusted certain definitions and covenant limits, added a new cash sweep feature for excess cash amounts to be paid after fiscal year-end and introduced LIBOR fallback provisions. During F2021, the Company incurred \$931 of costs associated with the amendment, which were recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan.

On December 4, 2021, the Company renewed a letter of credit (“**LoC**”) in the normal course of business for an amount of \$416, which decreases the availability under the Revolving Credit Facility. The LoC was originally issued on December 4, 2020 and has been renewed with the same terms and conditions until December 4, 2022.

As at the end of F2021, the Company had a total amount outstanding under its Credit Facilities of \$62,248 (F2020 – \$72,232), had unused borrowing capacity available under the Revolving Credit Facility of \$59,584 (F2020 - \$74,587) and cash of \$34,161 (F2020 - \$9,166).

The Company has financial and non-financial covenants under the Credit Facilities. The key financial covenants include covenants for total debt to Adjusted EBITDA ratio (“**Leverage Ratio**”), and fixed charge coverage ratio. Adjusted EBITDA used in the calculation of our key financial covenants may differ from the Adjusted EBITDA non-IFRS measure as defined in this MD&A. As at the end of F2021, the Company was in compliance with all covenants.

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 175 to 300 bps or the LIBOR rate or bankers’ acceptances rate, plus a margin that ranges from 275 to 400 bps. The applicable margins are derived from our Leverage Ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 175 bps at less than 2.0x Leverage Ratio, to 300 bps at greater than or equal to 3.5x Leverage Ratio; and (ii) where the LIBOR rate or bankers’ acceptances rate is used, the margins range from 275 bps at less than 2.0x Leverage Ratio, to 400 bps at greater than or equal to 3.5x Leverage Ratio. During F2021, the weighted average effective interest rate of the Credit Facilities was 3.2% (F2020 – 3.9%).

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

<b>CAD \$000s</b>	<b>Term Credit Facility</b>
Within 1 year .....	4,613
Between 1 - 2 years .....	4,613
Between 2 - 3 years .....	53,022
<b>Total</b> .....	<b>62,248</b>

## 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 January 29, 2022:

<b>CAD\$000s</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Thereafter</b>	<b>Total</b>
Term Credit Facility <sup>(1)</sup> . . . . .	4,613	4,613	53,022	–	–	–	62,248
Interest commitments relating to long-term debt <sup>(2)</sup> . . . . .	1,755	1,811	1,260	–	–	–	4,826
Payments on lease liabilities . . . . .	22,944	21,949	17,070	13,973	11,453	15,355	102,744
Inventory purchase commitments <sup>(3)</sup> . . . . .	36,661	–	–	–	–	–	36,661
<b>Total commitments and obligations</b> . . . . .	<b>65,973</b>	<b>28,373</b>	<b>71,353</b>	<b>13,973</b>	<b>11,453</b>	<b>15,355</b>	<b>206,480</b>

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 January 29, 2022, and assuming no prepayments are made to the Term Credit Facility.
- (3) 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 “Key Business Developments – COVID-19”).

## FINANCIAL INSTRUMENTS

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 and is presented in accumulated other comprehensive income . Any ineffective portion of changes in the fair value of the foreign currency forward contracts are recognized immediately in profit or 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 rates and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money.

As of the end of F2021, the Company has recorded derivative assets (obligations) of \$470 (F2020 – (\$418)), representing foreign currency forward contracts to buy US\$24,796 (F2020 – \$22,210) at an average rate of 1.26 (F2020 – 1.30). As of the end of F2021, the exchange rate was 1.28 (F2020 – 1.28). The forward contracts have maturity dates between January 31, 2022 and January 2, 2023.

As of the end of F2021 and F2020, there were \$nil and \$1,648, respectively, of future U.S. dollar denominated hedged purchases that were no longer expected to occur. During F2020, the Company no longer designated those forward contracts for hedge accounting and reclassified the accumulated unrealized loss of \$105 (net of tax – \$77) associated with those forward contracts from other comprehensive income to net income. The US\$1,648 of forward contracts had maturity dates between February 1, 2021 and March 1, 2021, at an average forward rate of 1.33.

During F2021, the Company settled de-designated forward contracts with an accumulated gain (loss) of \$(109) (net of tax – \$(80)) (F2020 - \$36 (net of tax – \$27)).

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 6, 2022, there were 41,697,587 Shares issued and outstanding (April 7, 2021 – 42,198,082). There were no preferred shares issued and outstanding as of April 6, 2022 and April 7, 2021.

During F2021:

- 204,575 Shares were purchased for cancellation, under the Company's NCIB;
- 909,500 time-based options were granted under the Omnibus Equity Incentive Plan;
- 25,001 stock options and 35,553 restricted share units ("**RSUs**") were exercised; and
- 324,798 stock options and 20,688 RSUs were forfeited and cancelled.

As at January 31, 2021, 2,531,463 stock options and 37,322 RSUs were granted and outstanding and 900,031 options and 15,985 RSUs were vested as of such date. Each option and RSU is, or will become, exercisable for one Share.

During F2021, the Company also granted 130,278 deferred share units ("**DSUs**") under the Company's deferred share unit plan (the "**DSU Plan**"). As of January 29, 2022, 549,948 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 beneficially own approximately 48.8% of the total issued and outstanding Shares and the Founders beneficially own approximately 12.5% of the total issued and outstanding Shares. All transactions described below are in the normal course of business and have been accounted for at their exchange value.

The Company leases the building for its leather factory, from a company that is under common control of the Founders. For Q4 2021 and F2021, the rent paid as it relates to the lease of these properties was \$118 (Q4 2020 – \$71) and \$331 (F2020 – \$248), respectively.

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 was to be repaid at the earlier of February 7, 2022 (six years from the inception of the loan) and upon a liquidity sale of the Company. Interest accrued at a rate of 4.0% per annum and was payable at the start of each calendar year following the date of the loan. Unpaid interest could be deemed paid by increasing the principal amount outstanding. As at January 29, 2022, the outstanding balance on the loan was \$633 (January 30, 2021 – \$608). The officer resigned from the Company effective August 9, 2019. The loan was repaid on February 7, 2022.

## 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](http://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 transacted 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. Changes in the value of foreign currencies relative to the Canadian dollar in respect of sales and costs would result in a foreign currency gain or loss impact in net income.

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 weakening Canadian dollar relative to the U.S. dollar will have a negative impact on year-over-year changes in reported net income by increasing

the cost of finished goods and raw materials while a strengthening Canadian dollar relative to the U.S. dollar would have the opposite impact. As described above, we entered 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 January 29, 2022, 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 \$187 in Q4 2021 and \$818 in F2021. 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 accounts receivable. 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, allowing the Company to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving certain financial results. Market conditions are difficult to predict and there is no guarantee that the Company will achieve certain results. In the event of non-compliance, the Company’s lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants. The Company will continue to carefully monitor its compliance with its covenants and seek waivers if such need arises at that time. See “Key Business Developments – COVID-19” and “Indebtedness”.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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 January 29, 2022.

Although the Company's disclosure controls and procedures were operating effectively as of January 29, 2022, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

Internal controls over financial reporting 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 controls 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 January 29, 2022.

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 judgement in evaluating controls and procedures. Therefore, even when determined to be designed effectively, disclosure controls and internal control over financial reporting can provide only reasonable assurance with respect to disclosure, reporting and financial statement preparation.

## **CHANGES IN DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There were no changes in our disclosure controls and internal controls over financial reporting in F2021 that materially affected, or are likely to materially affect, the reliability of our financial reporting and preparation of our financial statements.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Annual Financial Statements have been prepared in accordance with IFRS. The preparation of our financial statements requires us to make estimates and judgements 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 judgements 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 judgement in determining the grouping of assets to identify their CGUs for the purpose of testing store related fixed assets, including ROU assets. Judgement 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, judgement 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. FVLCS for fixed assets and right-of-use assets is determined using estimates such as market rental rates of comparable properties and discount rates. VIU for fixed assets and right-of-use assets is determined using estimates such as projected future sales and earnings, and a discount rate consistent with external industry information, reflecting the risk associated with the specific cash flows. The Company determines FVLCS for goodwill and indefinite life intangible assets using estimates such as projected future sales, gross profit margin and earnings, a terminal growth rate and a discount rate.

### ***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 breakage is recognized as redemptions are actualized.

## ***Income taxes***

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

## ***Leases***

The Company has applied judgement 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 primarily due to macroeconomic factors.

## **NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED IN THE YEAR**

### ***Amendment to IFRS 16, Leases – COVID-19-Related Rent Concessions***

In May 2020, the IASB published COVID-19-Related Rent Concessions, which amends IFRS 16 to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. COVID-19-related rent concessions qualify for the practical expedient if there was a decrease in lease consideration, reduction of lease payments that affected payments originally due on or before June 30, 2021, and no substantive changes to other terms and conditions of the lease. The Company has applied the practical expedient for the annual period beginning on February 2, 2020.

In March 2021, the IASB extended the relief period to cover reductions of lease payments that affect payments due on or before June 30, 2022. The amendment becomes effective for annual reporting periods beginning on or after April 1, 2021 with earlier application permitted. The Company has applied the extension of the practical expedient for the annual period beginning on January 31, 2021. With the extension of the rent relief period under the amendment, certain leases that were accounted for as lease modifications for the annual period ending January 30, 2021 may now qualify for the practical expedient. The Company has applied the amendment on January 31, 2021 under the modified retrospective approach with an adjustment to opening retained earnings and no restatement of the prior comparative period. The application of this amendment impacts the ROU assets and lease liabilities and results in a cumulative impact to opening retained earnings of \$85 as at January 31, 2021.

For Q4 2021 and F2021, the Company recognized \$125 and \$2,595 of base rent concessions, respectively (Q4 2020 and F2021 – \$413 and \$3,525, respectively), which qualified for the practical expedient and were recorded as a reduction to SG&A expenses.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends International Accounting Standard 1 – *Presentation of Financial Statements* (“**IAS 1**”). The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

In February 2021, the IASB issued *Definition of Accounting Estimates*, which amends IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently assessing the potential impact of these amendments.

In February 2021, the IASB issued *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2 – *Making Material Judgements* (“**IFRS Practice Statement 2**”). The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed, and not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted and are to be applied prospectively. The Company is currently assessing the potential impact of these amendments.

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies which fees should be included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after

January 1, 2022 with earlier adoption permitted. The Company is currently assessing the potential impact of this amendment.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company, including the AIF, is available on SEDAR at [www.sedar.com](http://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 January 29, 2022 and  
January 30, 2021  
(In Canadian dollars)

## Table of Contents

<b>Table of Contents</b> .....	38
<b>INDEPENDENT AUDITORS' REPORT</b> .....	2
Consolidated Statement of Financial Position.....	45
Consolidated Statement of Net Income.....	46
Consolidated Statement of Comprehensive Income.....	47
Consolidated Statement of Changes in Shareholders' Equity.....	48
Consolidated Statement of Cash Flows.....	49
1. Nature of operations and basis of presentation.....	50
2. Significant accounting policies.....	54
3. Operating segments.....	64
4. Accounts receivable.....	65
5. Inventories.....	65
6. Fixed assets.....	66
7. Intangible assets and Goodwill.....	68
8. Financial instruments.....	70
9. Leases.....	71
10. Long-term debt.....	73
11. Share capital.....	75
12. Earnings per Share.....	77
13. Share-based compensation.....	78
14. Financial risk management.....	80
15. Income taxes expense.....	83
16. Contingencies.....	85
17. Personnel expenses.....	85
18. Related party transactions.....	85
19. Deconsolidation of RTS USA Corp. ....	87
20. Government grants.....	88



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

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Roots Corporation

### **Opinion**

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

- the consolidated statement of financial position as at January 29, 2022 and January 30, 2021
- the consolidated statement of net income for the 52 week periods then ended
- the consolidated statement of comprehensive income 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 January 29, 2022 and January 30, 2021, 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) as issued by the International Accounting Standards Board (IASB).

### **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.

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.





## ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the 52 week period ended January 29, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### ***Evaluation of Impairment of Indefinite Life Intangible Assets for the Direct-to-Consumer Segment***

#### ***Description of the matter***

We draw attention to Notes 1(g)(ii), 2(f) and 7 to the financial statements. Indefinite life intangible assets 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. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Entity has recorded indefinite life intangible assets of \$175,044 thousand. For the purpose of impairment testing, indefinite life intangible assets are allocated to the grouping of cash generating units ("CGUs"), which represent the lowest level within the Entity at which these assets are monitored for internal management purposes. Management has determined this grouping to be consistent with the two reportable operating segments: Direct-to-Consumer and Partners and Other. The recoverable amount is based on the greater of the CGU group's fair value less cost to sell ("FVLCS") and its value-in-use ("VIU"). The Entity's significant estimates used in determining the FVLCS include projected future sales, gross profit margin and earnings, terminal growth rate and discount rate.

#### ***Why the matter is a key audit matter***

We identified the evaluation of impairment of indefinite life intangible assets for the Direct-to-Consumer segment as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the balance and the high degree of estimation uncertainty in determining the recoverable amount. Significant auditor judgement and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Entity's significant estimates due to the sensitivity of the recoverable amount to minor changes in significant estimates.

#### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of the control over the Entity's review of the recoverable amount of the Direct-to-Consumer segment. This control included the review of estimates used to determine the recoverable amount.

We compared the Entity's projected future sales, gross profit margin and earnings used in the prior year estimate to actual results to assess the Entity's ability to predict projected future sales, gross profit margin and earnings used in the current year impairment testing.



We evaluated the appropriateness of the projected future sales, gross profit margin and earnings to the actual historical sales, gross profit margin and earnings generated by the Direct-to-Consumer segment. We took into account changes in conditions and events affecting the segment to assess the adjustments or lack of adjustments made in arriving at the projected future sales, gross profit margin and earnings estimates.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the terminal growth rate by comparing it against long-term estimates of inflation in Canada
- Evaluating the appropriateness of the discount rate by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

### ***Evaluation of Impairment of Fixed Assets and Right-of-use Assets for Store Locations***

#### ***Description of the matter***

We draw attention to Notes 1(g)(ii), 2(f), 6 and 9 to the financial statements. Fixed assets and right-of-use assets are tested for impairment by the Entity whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Entity has recorded fixed assets and right-of-use assets of \$42,847 thousand and \$68,000 thousand, respectively. A significant portion of the fixed assets and right-of-use assets tested for impairment are comprised of assets used in store locations. The Entity has determined that each store location is a separate CGU for the purpose of impairment testing. The recoverable amount is based on the greater of the CGU's FVLCS and its VIU, which is determined using a discounted cash flow model. The Entity's significant estimates include:

- Market rental rates for FVLCS
- Discount rate, projected future sales and earnings for VIU.

#### ***Why the matter is a key audit matter***

We identified the evaluation of impairment of fixed assets and right-of-use assets for store locations as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of estimation uncertainty in determining the recoverable amount. Significant auditor judgement was required to evaluate the evidence supporting the Entity's significant estimates due to the sensitivity of the recoverable amount to minor changes in certain significant estimates.

#### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of the control over the Entity's review of the recoverable amount of the store locations. This control included the review of estimates used to determine the recoverable amount.



For a selection of store locations, we evaluated the appropriateness of the:

- Projected future sales and earnings estimates used in determining VIU by comparing them to the actual historical sales and earnings generated by the store location. We took into account changes in conditions and events affecting the store location to assess the adjustments or lack of adjustments made in arriving at the projected future sales and earnings estimates
- Market rental rates used in the Entity's impairment model by comparing them to publicly available market information such as commercial real estate property listings for comparable properties.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate used in the VIU model by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

### ***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 "2021 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 "2021 Online Annual Report" and/or "2021 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*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 6, 2022

# ROOTS CORPORATION

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

As at January 29, 2022 and January 30, 2021

	Note	January 29, 2022	January 30, 2021
<b>Assets</b>			
Current assets			
Cash	19	\$ 34,161	\$ 9,166
Accounts receivable	4,14	5,984	7,165
Inventories	5,19	41,256	42,401
Prepaid expenses		3,969	3,137
Loan receivable	14,18	633	–
Derivative assets	8,14	470	–
Total current assets		86,473	61,869
Non-current assets:			
Loan receivable	14,18	–	608
Lease receivable	9,14	–	1,187
Fixed assets	6,19	42,847	47,981
Right-of-use assets	9,19	68,000	79,995
Intangible assets	7	188,479	190,777
Goodwill	7	7,906	7,906
Total non-current assets		307,232	328,454
Total assets		\$ 393,705	\$ 390,323
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	14,19	\$ 28,307	\$ 25,850
Deferred revenue		6,338	5,759
Income taxes payable	15	6,704	5,955
Current portion of lease liabilities	9,14,19	22,190	22,197
Current portion of long-term debt	10,14	4,613	4,984
Derivative obligations	8,14	–	418
Total current liabilities		68,152	65,163
Non-current liabilities:			
Deferred tax liabilities	15	17,383	15,891
Long-term portion of lease liabilities	9,14,19	65,947	78,989
Long-term debt	10,14	56,166	66,100
Total non-current liabilities		139,496	160,980
Total liabilities		207,648	226,143
Shareholders' equity:			
Share capital	11	195,070	197,333
Contributed surplus	13	4,107	3,682
Accumulated other comprehensive income (loss)		346	(227)
Retained earnings (deficit)		(13,466)	(36,608)
Total shareholders' equity		186,057	164,180
Total liabilities and shareholders' equity		\$ 393,705	\$ 390,323

Contingencies

16

On behalf of the Board of Directors:

"Erol Uzumeri"

Director

"Richard P. Mavrinac"

Director

See accompanying notes to consolidated financial statements.

# ROOTS CORPORATION

## Consolidated Statement of Net Income

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

For the 52-week periods ended January 29, 2022 and January 30, 2021

	Note	January 29, 2022	January 30, 2021
Sales		\$ 273,834	\$ 240,506
Cost of goods sold	5	110,977	100,767
Gross profit		162,857	139,739
Selling, general and administrative expenses	20	122,850	114,807
Gain from deconsolidation of RTS USA Corp.	19	–	4,774
Income before interest expense and income taxes expense		40,007	29,706
Interest expense	10	8,808	11,741
Income before income taxes		31,199	17,965
Income taxes expense	15	8,436	4,885
Net income		\$ 22,763	\$ 13,080
Basic earnings per Share	12	\$ 0.54	\$ 0.31
Diluted earnings per Share	12	\$ 0.53	\$ 0.31

See accompanying notes to consolidated financial statements.

# ROOTS CORPORATION

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

For the 52-week periods ended January 29, 2022 and January 30, 2021

	Note	January 29, 2022	January 30, 2021
Net income		\$ 22,763	\$ 13,080
Other comprehensive income, net of taxes:			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	8,14	211	362
Cost of hedging excluded from cash flow hedges	8,14	(35)	(22)
Tax impact of cash flow hedges	8,14	(47)	(91)
Total other comprehensive income		129	249
Total comprehensive income		\$ 22,892	\$ 13,329

*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 January 29, 2022 and January 30, 2021

January 29, 2022	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 30, 2021		\$ 197,333	\$ 3,682	\$ (36,608)	\$ (227)	\$ 164,180
Adjustment on amendment of IFRS 16	2	–	–	85	–	85
Balance, January 31, 2021		\$ 197,333	\$ 3,682	\$ (36,523)	\$ (227)	\$ 164,265
Net income		–	–	22,763	–	22,763
Net gain from change in fair value of cash flow hedges, net of income taxes		–	–	–	129	129
Transfer of net realized loss on cash flow hedges to inventories, net of income taxes		–	–	–	444	444
Share-based compensation	13	–	655	–	–	655
Issuance of Shares	11,13	265	(230)	–	–	35
Purchase of Shares	11	(2,528)	–	294	–	(2,234)
Balance, January 29, 2022		\$ 195,070	\$ 4,107	\$ (13,466)	\$ 346	\$ 186,057

January 30, 2021	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 1, 2020		\$ 196,903	\$ 3,407	\$ (49,688)	\$ (116)	\$ 150,506
Net income		–	–	13,080	–	13,080
Net gain from change in fair value of cash flow hedges, net of income taxes		–	–	–	249	249
Transfer of net realized gain on cash flow hedges to inventories, net of income taxes		–	–	–	(360)	(360)
Share-based compensation	13	–	705	–	–	705
Issuance of Shares	11,13	430	(430)	–	–	–
Balance, January 30, 2021		\$ 197,333	\$ 3,682	\$ (36,608)	\$ (227)	\$ 164,180

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 January 29, 2022 and January 30, 2021

	Note	January 29, 2022	January 30, 2021
Cash provided by (used in):			
Operating activities:			
Net income		\$ 22,763	\$ 13,080
Items not involving cash:			
Depreciation and amortization	6,7,9	29,994	33,325
Share-based compensation expense	13	655	705
Impairment, net of reversals, of fixed assets and right-of-use assets	6,9	649	2,048
Gain from deconsolidation of RTS USA Corp.	19	–	(4,774)
Unrealized losses on forward contracts	8	–	105
Gain on lease modification	9	(438)	(310)
Rent concessions related to practical expedient	9	(2,595)	(3,525)
Interest expense	10	8,808	11,741
Income taxes expense	15	8,436	4,885
Settlement of de-designated forward contracts	8	(109)	–
Interest paid			(4,337)
Payment of interest on lease liabilities	9	(2,862)	(6,724)
Income taxes refunded (paid)		(5,360)	1,056
Change in non-cash operating working capital:		(6,433)	
Accounts receivable	4	1,181	(7)
Inventories	5	1,145	(4,540)
Prepaid expenses		(832)	2,281
Accounts payable and accrued liabilities		886	6,165
Deferred revenue		579	(252)
		56,467	50,922
Financing activities			
Repayment of long-term debt	10	–	(14,000)
Long-term debt financing costs	10	(931)	(148)
Repayment of Term Credit Facility	10	(9,984)	(4,984)
Proceeds from issuance of Shares	11	35	–
Purchase of Shares	11	(663)	–
Payment of principal on lease liabilities, net of tenant allowance	9	(15,521)	(12,383)
		(27,064)	(31,515)
Investing activities			
Additions to fixed assets	6	(4,408)	(3,423)
Deconsolidation of RTS USA Corp.	19	–	(541)
		(4,408)	(3,964)
Increase in cash		24,995	15,443
Cash and bank indebtedness, beginning of period		9,166	(6,277)
Cash, end of period		\$ 34,161	\$ 9,166

See accompanying notes to consolidated financial statements.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### 1. Nature of operations and basis of presentation

#### Nature of operations

Established in 1973, Roots is a global lifestyle brand. Starting from a small cabin in northern Canada, Roots has become a global brand, which as of January 29, 2022, operated 107 corporate retail stores and nine temporary pop-up locations in Canada, two corporate retail stores in the United States, and an eCommerce platform, [www.roots.com](http://www.roots.com), that serves over 55 international markets. We have more than 100 partner-operated stores in Asia, and we also operate a dedicated Roots-branded storefront on Tmall.com in China. We design, market, and sell a broad selection of products in different departments, including women's men's, children's, and gender-free apparel, leather goods, footwear, and accessories. Our products are built with uncompromising comfort, quality, and style that allows you to feel at home with nature. We offer products designed to meet life's everyday adventures and provide you with the versatility to live your life to the fullest. We also wholesale through business-to-business channels and license the brand to a select group of licensees selling products to major retailers.

Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada", 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".

#### Basis of preparation

##### (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 6, 2022.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### (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 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) COVID-19

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, leading many countries to take drastic measures to manage the spread of the virus. The worldwide pandemic, along with ensuing recommendations and restrictions imposed by government authorities to help curb the spread of COVID-19, has significantly impacted the operations and financial performance of the Company.

Since March 2020, in accordance with local government and health organization guidelines, the Company has experienced intermittent government mandated closures of its corporate retail stores and partner-operated stores, as well as capacity restrictions. The Company continued to operate its global eCommerce business and its distribution centre, with strict cleaning protocols and physical distancing measures in place, successfully leveraging its omni-channel platform to generate substantial online sales growth that has partially offset the impact of retail store closures, constraints, and store traffic declines compared to pre-pandemic periods. The Company also continued to operate its wholesale, business-to-business, and licensing business, as well as its head office functions under a primarily "work-from-home" model.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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Management recognizes that while it has implemented an action plan to best navigate the impacts of COVID-19 on the business, there is still uncertainty with respect to the duration and extent to which the pandemic may adversely impact the Company. To the extent that COVID-19 continues, or further public restrictions are imposed by the government, the degree to which the Company's operations could be affected may increase.

### (g) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, 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 judgement 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. Judgement 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 at the lowest level where cash inflows are generated. In addition, judgement 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. FVLCS for fixed assets and right-of-use assets is determined using estimates such as market rental rates of comparable properties and discount rates. VIU

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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for fixed assets and right-of-use assets is determined using estimates such as projected future sales and earnings, and a discount rate consistent with external industry information, reflecting the risk associated with the specific cash flows. The Company determines FVLCS for goodwill and intangible assets using estimates such as projected future sales, gross profit margin and earnings, a terminal growth rate, and a discount rate.

*(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 as redemptions are actualized.

*(v) Leases*

The Company has applied judgement 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 primarily due to macroeconomic factors.

*(vi) Income taxes*

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements is required regarding classification of transactions and in assessing probable outcomes of claimed deductions, including expectations of

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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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 for the period and comprehensive income.

### (b) Revenue recognition

Revenue includes sales to customers through retail stores operated by the Company and through eCommerce. Sales through 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 historical return rate trends 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 with 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.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### (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 costs incurred in the manufacturing process and net realizable value.

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

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

### (d) Fixed assets

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

Depreciation is primarily recognized in selling, general and administrative expenses in the consolidated statement of net income, on a diminishing-balance 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.



# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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	Diminishing-balance	20%
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. 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.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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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 assesses whether a contract is, or contains, a lease at the inception of the applicable contract. 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.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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

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

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred 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

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

(i) Share-based compensation

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

(j) Earnings per Share (“EPS”)

Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of 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 Shares outstanding, plus the weighted average number of 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.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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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. The time value component of forward contracts designated as cash flow hedges is excluded from the hedging relationship and recorded in other comprehensive income as a cost of hedging and presented separately.

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

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

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

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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) Government grants

The Company recognizes a government grant when there is reasonable assurance that it complies with the conditions required to qualify for the grant, and that the grant will be received. The Company recognizes the government grants as a reduction to the related expense that the grant is intended to offset.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### (m) New standards and interpretations adopted in the year

#### *Amendment to IFRS 16, Leases – COVID-19-Related Rent Concessions*

In May 2020, the IASB issued COVID-19-Related Rent Concessions, which amends IFRS 16, *Leases*, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. COVID-19-related rent concessions qualify for the practical expedient if there was a decrease in lease consideration, reduction of lease payments that affected payments originally due on or before June 30, 2021, and no substantive changes to other terms and conditions of the lease. The Company has applied the practical expedient for the annual period beginning on February 2, 2020.

In March 2021, the IASB extended the relief period to cover reduction of lease payments that affect payments due on or before June 30, 2022. The amendment became effective for annual reporting periods beginning on or after April 1, 2021 with earlier application permitted. The Company has applied the extension of the practical expedient for the annual period beginning on January 31, 2021. With the extension of the rent relief period under the amendment, certain lease changes that were accounted for as lease modifications for the annual period ending January 30, 2021 may now qualify for the practical expedient. The Company has applied the amendment on January 31, 2021 under the modified retrospective approach with an adjustment to opening retained earnings and no restatement of the prior comparative period. The application of this amendment impacts the right-of-use assets and lease liabilities and results in a cumulative impact to opening retained earnings of \$85 as at January 31, 2021.

The Company has continued to apply the amended practical expedient for the annual period ending January 29, 2022 and has recorded any eligible change in lease payments resulting from COVID-19-related rent concessions in the consolidated statement of net income, at the later of the date on which the rent concession arrangement was executed and the period to which the rent concession relates. See Note 9.

### (n) New standards and interpretations not yet adopted

#### *Amendments to IAS 1, Presentation of Financial Statements (“IAS 1”)*

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends IAS 1, *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services. The amendments are effective for annual reporting periods beginning on or after

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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January 1, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

### *Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)*

In February 2021, the IASB issued *Definition of Accounting Estimates*, which amends IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently assessing the potential impact of these amendments.

### *Amendments to IAS 1 and IFRS Practice Statement 2, Making Material Judgements (“IFRS Practice Statement 2”)*

In February 2021, the IASB issued *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed, and not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted and are to be applied prospectively. The Company is currently assessing the potential impact of these amendments.

### *Amendment to IFRS 9, Financial Instruments (“IFRS 9”)*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies which fees should be included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting



# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is currently assessing the potential impact of this amendment.

### 3. Operating segments

The Company has two reportable operating segments:

- (a) The “Direct-to-Consumer” segment comprises sales through corporate retail stores and the Company’s eCommerce website [www.roots.com](http://www.roots.com); and
- (b) The “Partners and Other” segment consists primarily of the wholesale of Roots-branded products to our international operating partner. The Partners and Other segment also includes the Company’s sales from its Roots-branded storefront on business-to-consumer marketplace website Tmall.com in China, royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

The Company defines an operating segment on the same basis that the Chief Operating Decision Maker (the “CODM”) uses to evaluate performance internally and to allocate resources. The Company has determined that the President and Chief Executive Officer is its CODM. The accounting policies of the reportable segments are the same as those described in the Company’s 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:

	January 29, 2022			January 30, 2021		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	\$ 235,837	\$ 37,997	\$ 273,834	\$ 208,230	\$ 32,276	\$ 240,506
Cost of goods sold	88,187	22,790	110,977	80,968	19,799	100,767
Gross profit	147,650	15,207	162,857	127,262	12,477	139,739
Selling, general and administrative expenses <sup>(1)</sup>			122,850			114,807
Gain from deconsolidation of RTS USA Corp. <sup>(1)</sup>			–			4,774
Income before interest expense and income taxes expense			40,007			29,706
Interest expense <sup>(1)</sup>			8,808			11,741
Income before income taxes			\$ 31,199			\$ 17,965

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

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 4. Accounts receivable

	January 29, 2022				January 30, 2021			
	0-90 days	91-120 days	> 120 days	Total	0-90 days	91-120 days	> 120 days	Total
Accounts receivable	\$ 5,877	\$ 86	\$ 21	\$ 5,984	\$ 7,131	\$ 34	\$ –	\$ 7,165

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

	January 29, 2022	January 30, 2021
Allowance for doubtful accounts receivable, beginning of period	\$ (8)	\$ (126)
Net write off	8	118
Allowance for doubtful accounts receivables, end of period	\$ –	\$ (8)

### 5. Inventories

	January 29, 2022	January 30, 2021
Raw materials	\$ 5,031	\$ 6,103
Work in progress	409	633
Finished goods – On hand	30,928	32,024
Finished goods – In-transit	4,888	3,641
	\$ 41,256	\$ 42,401

The cost of merchandise inventories recognized as an expense and included in cost of goods sold for the period ended January 29, 2022 was \$104,482 (period ended January 30, 2021 – \$95,058). Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centre and stores including freight, import taxes and duties.

During the period ended January 29, 2022, the Company recorded a \$686 provision for inventories with net realizable values below cost (period ended January 30, 2021 – \$1,037).

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 6. Fixed assets

	Computer hardware	Furniture and fixtures	Equipment	Computer software	Leasehold improvements	Total
<b>Cost</b>						
Balance, February 1, 2020	\$ 1,702	\$ 5,811	\$ 10,982	\$ 18,010	\$ 66,764	\$ 103,269
Additions	211	25	354	1,031	1,802	3,423
Disposals/adjustments <sup>(1)</sup>	–	(484)	–	–	(969)	(1,453)
Balance, January 30, 2021	\$ 1,913	\$ 5,352	\$ 11,336	\$ 19,041	\$ 67,597	\$ 105,239
Additions	98	47	1,717	1,470	1,076	4,408
Disposals/adjustments <sup>(1)</sup>	(159)	(911)	–	(895)	(41,978)	(43,943)
Reclassifications	55	–	(9,376)	(55)	9,376	–
Balance, January 29, 2022	\$ 1,907	\$ 4,488	\$ 3,677	\$ 19,561	\$ 36,071	\$ 65,704
<b>Accumulated depreciation and impairment losses</b>						
Balance, February 1, 2020	\$ 676	\$ 1,909	\$ 960	\$ 5,721	\$ 38,309	\$ 47,575
Depreciation	154	740	1,466	2,375	4,954	9,689
Disposals/adjustments <sup>(1)</sup>	–	(484)	–	–	(969)	(1,453)
Impairment losses	53	4	–	–	829	886
Deconsolidation of RTS USA Corp. (Note 19)	35	147	–	–	379	561
Balance, January 30, 2021	\$ 918	\$ 2,316	\$ 2,426	\$ 8,096	\$ 43,502	\$ 57,258
Depreciation	157	576	193	2,133	6,139	9,198
Disposals/adjustments <sup>(1)</sup>	(159)	(911)	–	(895)	(41,978)	(43,943)
Reclassifications	36	–	(1,864)	(36)	1,864	–
Impairment losses	11	–	–	–	630	641
Reversal of impairment losses	–	–	–	–	(297)	(297)
Balance, January 29, 2022	\$ 963	\$ 1,981	\$ 755	\$ 9,298	\$ 9,860	\$ 22,857
<b>Carrying amount</b>						
January 30, 2021	\$ 995	\$ 3,036	\$ 8,910	\$ 10,945	\$ 24,095	\$ 47,981
January 29, 2022	944	2,507	2,922	10,263	26,211	42,847

(1) Disposals/adjustments includes the write-off of fully depreciated fixed assets which have no impact to the carrying amount of fixed assets as at January 29, 2022 and January 30, 2021.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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For the period ended January 29, 2022, the Company recorded \$641 (period ended January 30, 2021 – \$886) of impairment losses on fixed assets and \$305 (period ended January 30, 2021 – \$1,162) of impairment losses on right-of-use assets as disclosed in Note 9. Impairment losses were in respect of five CGUs (period ended January 30, 2021 – 13 CGUs) using a VIU test in the Direct-to-Consumer operating segment, recorded as part of selling, general and administrative expenses.

For the period ended January 29, 2022, the Company had recorded \$297 of impairment reversals on fixed assets (period ended January 30, 2021 – \$nil). Impairment reversals were in respect of two CGUs (period ended January 30, 2021 – zero CGUs) using a VIU test in the Direct-to-Consumer operating segment, recorded as part of selling, general and administrative expenses.

The recoverable amount for a store location is based on the VIU of the related CGU. When determining the VIU of a store 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 January 29, 2022 (January 30, 2021 – 12.5%).

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 7. Intangible assets and Goodwill

	Trade names	License arrangements	Customer relationships	Total intangible assets	Total goodwill
<b>Cost</b>					
Balance, February 1, 2020	\$ 175,044	\$ 25,910	\$ 7,766	\$ 208,720	\$ 52,705
Balance, January 30, 2021	175,044	25,910	7,766	208,720	52,705
Balance, January 29, 2022	\$ 175,044	\$ 25,910	\$ 7,766	\$ 208,720	\$ 52,705
<b>Accumulated amortization and impairment losses</b>					
Balance, February 1, 2020	–	\$ 12,398	\$ 3,243	\$ 15,641	\$ 44,799
Amortization	–	1,527	775	2,302	–
Balance, January 30, 2021	–	13,925	4,018	17,943	44,799
Amortization	–	1,523	775	2,298	–
Balance, January 29, 2022	\$ –	\$ 15,448	\$ 4,793	\$ 20,241	\$ 44,799
<b>Carrying amount</b>					
January 30, 2021	\$ 175,044	\$ 11,985	\$ 3,748	\$ 190,777	\$ 7,906
January 29, 2022	175,044	10,462	2,973	188,479	7,906

Amortization expenses, impairment losses and reversals are recorded in selling, general and administrative expenses in the consolidated statement of net income in the period in which they occur. No impairment losses or reversals were recognized on definite life intangible assets for the period ended January 29, 2022 (period ended January 30, 2021 – \$nil).

Amortization expense on definite life intangible assets of \$2,298 for the period ended January 29, 2022 (period ended January 30, 2021 – \$2,302) has been recognized in the consolidated statement of net income.

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 ongoing success of the business. Trade names are not amortized and are instead tested for impairment annually or when such changes in events or circumstances indicate a trigger for impairment or a change in its future economic benefits that would result in assessing the appropriateness of its useful life.

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

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

The Company performs an annual impairment assessment of indefinite life trade names and 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.

For the purpose of impairment testing, indefinite life trade names and goodwill 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:

	Indefinite life trade names			Goodwill		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Balance, January 30, 2021	161,040	14,004	175,044	–	7,906	7,906
Impairment	–	–	–	–	–	–
Balance, January 29, 2022	\$ 161,040	\$ 14,004	\$ 175,044	\$ –	\$ 7,906	\$ 7,906

As at January 29, 2022, 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 conservative 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 January 29, 2022 include:

- Annual sales growth rates up to 5% beyond 2023 (January 30, 2021 – up to 5%)
- Terminal growth rate of 2.0% (January 30, 2021 – 2.0%)
- After-tax discount rate of 14.0% (January 30, 2021 – 14.0%)
- Pre-tax discount rate of 18.5% (January 30, 2021 – 18.5%)

Sales growth rates are based on management's best estimates considering past experiences, actual operating results, conservative budgeted projections and the general outlook for the industry and markets in which the CGU group 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.

For both periods ended January 29, 2022 and January 30, 2021, the Company completed its annual impairment tests for indefinite life trade names and goodwill and concluded that the recoverable amount

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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exceeded the carrying amount of CGU groups and, therefore, no goodwill and indefinite life intangible asset impairment losses were recorded.

### **8. Financial instruments**

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

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

The fair value of derivative assets and derivative obligations resulting from forward contracts are determined using a valuation technique that employs the use of market observable inputs and are based on the differences between the contract rates 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 January 29, 2022 and January 30, 2021.

The Company enters into forward contracts to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at January 29, 2022, the Company had outstanding forward contracts to buy US\$24,796 (January 30, 2021 – US\$22,210) at an average forward rate of 1.26 (January 30, 2021 – 1.30). As at January 29, 2022, the maturity dates on the forward contracts were between January 31, 2022 and January 3, 2023.

For the periods ended January 29, 2022 and January 30, 2021, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a gain of \$211 (net of tax – \$155) and a gain of \$362 (net of tax – \$265), respectively, which were recorded in other comprehensive income.

As at January 29, 2022 and January 30, 2021, there were \$nil and \$1,648, respectively, of future U.S. dollar denominated hedged purchases that were no longer expected to occur. For the period ended January 30, 2021, the Company no longer designated those forward contracts for hedge accounting and reclassified the accumulated unrealized loss of \$105 (net of tax – \$77) associated with those forward contracts from other comprehensive income to net income. The US\$1,648 of forward contracts had maturity dates between February 1, 2021 and March 1, 2021, at an average forward rate of 1.33.

For the periods ended January 29, 2022 and January 30, 2021, the Company settled de-designated forward contracts with an accumulated loss of \$(109) (net of tax – \$(80)), and an accumulated gain of \$36 (net of tax – \$27), respectively.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 9. Leases

The Company leases various corporate retail store locations, its head office, a distribution warehouse, a manufacturing facility, and equipment under non-cancellable operating lease agreements. Corporate retail stores typically have a contractual lease period of 5 to 10 years with additional renewal terms available thereafter. Pop-up locations typically have a contract lease period less than 2 years. Any leases less than 12 months qualify for the short-term exemption discussed in Note 2.

#### (a) Right-of-use assets

The following table reconciles the changes in right-of-use assets for the periods ended January 29, 2022 and January 30, 2021:

	January 29, 2022	January 30, 2021
<b>Cost</b>		
Balance, beginning of period	\$ 127,097	\$ 156,498
Adjustment on amendment of IFRS 16 (Note 2)	983	–
Adjusted balance, beginning of period	128,080	156,498
Additions	3,872	1,423
Adjustments	2,473	637
Tenant allowances	(334)	(1,065)
Deconsolidation of RTS USA Corp. (Note 19)	–	(30,396)
Balance, end of period	\$ 134,091	\$ 127,097
<b>Accumulated amortization and impairment losses</b>		
Balance, beginning of period	\$ 47,102	\$ 28,176
Adjustment on amendment of IFRS 16 (Note 2)	186	–
Adjusted balance, beginning of period	47,288	28,176
Depreciation	18,498	21,009
Impairment losses (Note 6)	305	1,162
Deconsolidation of RTS USA Corp. (Note 19)	–	(3,245)
Balance, end of period	\$ 66,091	\$ 47,102
<b>Carrying amount</b>	<b>\$ 68,000</b>	<b>\$ 79,995</b>



# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### (b) Lease liabilities

The following table reconciles the changes in lease liabilities for the periods ended January 29, 2022 and January 30, 2021:

	January 29, 2022	January 30, 2021
Balance, beginning of period	\$ 101,186	\$ 151,159
Adjustment on amendment of IFRS 16 (Note 2)	681	–
Adjusted balance, beginning of period	101,867	151,159
Additions	3,872	1,424
Adjustments	848	327
Tenant allowances	(334)	(1,065)
Interest expense on lease liabilities	5,360	6,724
Rent concessions	(2,595)	(3,525)
Repayment of interest and principal on lease liabilities, net of tenant allowance	(20,881)	(19,107)
Deconsolidation of RTS USA Corp. (Note 19)	–	(34,751)
Balance, end of period	\$ 88,137	\$ 101,186

Recorded in the consolidated statement of financial position as follows:

Current portion of lease liabilities	\$ 22,190	\$ 22,197
Long-term portion of lease liabilities	65,947	78,989
	\$ 88,137	\$ 101,186

### (c) Commitments

The Company also has a future undiscounted cash flows of \$494 (period ended January 30, 2021 – \$1,703) related to leases not yet commenced but committed to.

### (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 January 29, 2022, \$9,883 was recognized in selling, general and administrative expenses related to these variable lease arrangements (period ended January 30, 2021 – \$7,957).

### (e) Sublease

During the period ended January 29, 2022, the Company recognized sublease income of \$470 (period ended January 30, 2021 – \$513). On December 8, 2021, the subject lease was assigned to another party, resulting in the de-recognition of the lease liability and the lease receivable balances as at January 29, 2022 on the consolidated statement of financial position (as at January 30, 2021 - \$1,187).

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### (f) Rent Concessions

For the period ended January 29, 2022, the Company received \$2,595 of base rent concessions, which qualified for the practical expedient and were recorded as a reduction in selling, general and administrative expenses (period ended January 30, 2021 – \$3,525).

## 10. 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”) (together with the Term Credit Facility, the “Credit Facilities”).

On May 28, 2021, the Company amended its Credit Agreement to extend the original maturity date from September 6, 2022 to September 6, 2024 and reduced the \$75,000 Revolving Credit Facility to \$60,000. The Revolving Credit Facility continues to include a swing loan of \$10,000. In addition, the amendment adjusted certain definitions and covenant limits, added in a new cash sweep feature for excess cash amounts to be paid after fiscal year-end and introduced LIBOR fallback provisions. The Company incurred \$931 of costs associated with the amendment, which were recorded as debt financing costs within long-term debt and will be recognized as interest expense over the remaining term of the loan.

As at January 29, 2022 and January 30, 2021, there were no amounts drawn on the Revolving Credit Facility. During the period ended January 29, 2022, the weighted average effective interest rate of the Credit Facilities was 3.2% (period ended January 30, 2021 – 3.9%).

On December 4, 2021, the Company renewed a letter of credit (“LoC”) in the normal course of business for an amount of \$416, which decreases the availability under the Revolving Credit Facility. The LoC matures on December 4, 2022.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

The following table reconciles the changes in cash flows from financing activities for long-term debt for the periods ended January 29, 2022 and January 30, 2021:

	January 29, 2022	January 30, 2021
Long-term debt, beginning of period	\$ 71,084	\$ 89,512
Long-term debt repayments of Term Credit Facility	(9,984)	(4,984)
Long-term debt financing costs	(931)	(148)
Long-term debt repayments of Revolving Credit Facility	–	(14,000)
Total cash flow from long-term debt financing activities	60,169	70,380
Amortization of long-term debt financing costs	610	704
Total non-cash long-term debt activity	610	704
Total long-term debt, end of period <sup>(1)</sup>	\$ 60,779	\$ 71,084

(1) Total long-term debt of \$60,779 is net of \$1,469 unamortized long-term debt financing costs.

Recorded in the consolidated statement of financial position as follows:

Current portion of long-term debt	\$ 4,613	\$ 4,984
Long-term portion of long-term debt	56,166	66,100
	\$ 60,779	\$ 71,084

As at January 29, 2022, principal repayments due on long-term debt were as follows:

	Term Credit Facility
Within 1 year	\$ 4,613
Within 1 - 2 years	4,613
Within 2 - 3 years	53,022
Total	\$ 62,248

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

Total interest expense for the period ended January 29, 2022 was \$8,808 (period ended January 30, 2021 – \$11,741) and was comprised of:

	January 29, 2022	January 30, 2021
Interest expense on long-term debt	\$ 2,575	\$ 4,021
Interest expense on lease liabilities (Note 9)	5,360	6,724
Amortization of long-term debt financing costs	610	704
Other	263	292
<b>Interest Expense</b>	<b>\$ 8,808</b>	<b>\$ 11,741</b>

### 11. 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 be entitled to preference over Shares with respect to the payment of dividends. 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 January 29, 2022 and January 30, 2021.

During the period ended January 29, 2022, 60,554 Shares (January 30, 2021 – 73,631 Shares) were issued from treasury as a result of the exercise of 35,553 restricted share units ("RSUs") (January 30, 2021 – 73,631 RSUs) and 25,001 stock options (January 30, 2021 – nil stock options) granted under the Company's Omnibus Equity Incentive Plan (the "Omnibus Plan") (See Note 13).

#### Share Purchase

On December 14, 2021, the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), allowing the Company to purchase, at its discretion, up to 2,172,928 Shares. The program commenced on December 16, 2021 and will terminate on December 15, 2022, or on such earlier date as the Company completes its purchases pursuant to the notice of intention.

During the period ended January 29, 2022, 204,575 Shares were purchased for cancellation for \$663, resulting in a decrease to share capital of \$957 and an increase to retained earnings (deficit) of \$294.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

On January 3, 2022, the Company entered into an Automatic Share Purchase Plan (“ASPP”) that allows the purchase of Shares for cancellation under the NCIB at any time during predetermined trading blackout periods. As at January 29, 2022, an obligation of \$1,571 was recognized in accounts payable and accrued liabilities for the purchase of Shares under the ASPP (January 30, 2021 - \$nil) and recorded against share capital.

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

	January 29, 2022		January 30, 2021	
	Number of Shares	Share capital	Number of Shares	Share capital
Outstanding Shares, beginning of period	42,198,082	\$ 197,333	42,124,451	\$ 196,903
Issuance of Shares	60,554	265	73,631	430
Purchase of Shares <sup>(1)</sup>	(204,575)	(2,528)	–	–
Outstanding Shares, end of period	42,054,061	\$ 195,070	42,198,082	\$ 197,333

(1) Reduction to share capital includes obligation to purchase of Shares after year-end under ASPP.

As at January 29, 2022, there were 42,054,061 Shares (January 30, 2021 – 42,198,082 Shares) and nil preferred shares (January 30, 2021 – nil preferred shares) issued and outstanding. All issued Shares are fully paid.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 12. Earnings per Share

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

	January 29, 2022	January 30, 2021
Weighted average Shares outstanding	42,221,249	42,170,369
Stock options	606,690	234,871
Dilutive weighted average Shares outstanding	42,827,939	42,405,240

  

	January 29, 2022	January 30, 2021
Net income	22,763	13,080

  

Basic earnings per Share	\$ 0.54	\$ 0.31
Diluted earnings per Share	0.53	0.31

For the periods ended January 29, 2022 and January 30, 2021, 1,521,629 and 818,808 stock options, respectively, were not included in the calculation of basic or diluted EPS as they were not “in-the-money” and therefore anti-dilutive.

For the periods ended January 29, 2022 and January 30, 2021, no RSUs were excluded in the calculation of diluted EPS.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 13. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy up to 3,878,082 Shares. As at January 29, 2022, 2,531,463 stock options and 37,322 RSUs were granted and outstanding.

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

For the period ended January 29, 2022	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	–	\$ –	374,828	\$ 6.26	1,650,480	\$ 2.57	2,025,308	\$ 3.26
Granted	–	–	–	–	909,500	3.59	909,500	3.59
Exercised	–	–	–	–	(25,001)	1.41	(25,001)	1.41
Forfeited	–	–	(53,546)	6.26	(324,798)	3.68	(378,344)	4.05
Outstanding options, end of period	–	–	321,282	\$ 6.26	2,210,181	\$ 2.84	2,531,463	\$ 3.28
Exercisable options, end of period	–	–	321,282	\$ 6.26	578,749	\$ 3.15	900,031	\$ 4.26

  

For the period ended January 30, 2021	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	220,931	\$ 4.67	444,439	\$ 6.26	533,367	\$ 6.16	1,198,737	\$ 5.92
Granted	–	–	–	–	1,206,500	1.39	1,206,500	1.39
Forfeited	(220,931)	4.67	(69,611)	6.26	(89,387)	8.04	(379,929)	5.75
Outstanding options, end of period	–	–	374,828	\$ 6.26	1,650,480	\$ 2.57	2,025,308	\$ 3.26
Exercisable options, end of period	–	–	374,828	\$ 6.26	169,934	\$ 6.59	544,762	\$ 6.36

The fair value of stock options granted during the period ended January 29, 2022 was \$1,107 (period ended January 30, 2021 – \$695).

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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:

	January 29, 2022	January 30, 2021
Expected volatility	33.0% – 35.1%	41.0% – 45.4%
Share price at grant date	\$3.12 – \$3.62	\$1.13 – \$1.41
Exercise price	\$3.12 – \$3.62	\$1.13 – \$1.41
Risk-free interest rate	0.83% – 1.15%	0.35% – 0.39%
Expected term	5.5 years – 6.5 years	5.5 years – 6.5 years
Fair value per option	\$1.05 – 1.27	\$0.44 – \$0.59

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 January 29, 2022	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	77,578	419,670	93,563	419,670
Granted	–	–	130,278	–	130,278
Exercised	–	(35,553)	–	(35,553)	–
Forfeited	–	(20,688)	–	(20,688)	–
Units, end of period	15,985	21,337	549,948	37,322	549,948

  

For the period ended January 30, 2021	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	167,795	176,153	183,780	176,153
Granted	–	–	243,517	–	243,517
Exercised	–	(73,631)	–	(73,631)	–
Forfeited	–	(16,586)	–	(16,586)	–
Units, end of period	15,985	77,578	419,670	93,563	419,670

There were 15,985 RSUs vested as at January 29, 2022 (January 30, 2021 – 15,985). The fair value of DSUs granted during the period ended January 29, 2022 was \$440 (period ended January 30, 2021 – \$292).

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.



# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

The Company's DSUs are cash-settled instruments, such that when exercised, participants will receive a payment in cash equal to the fair market value of the Shares represented by the DSUs on the exercise date. The Company records the fair market value of potential cash-settlement obligations from existing DSUs in accounts payable and accrued liabilities. All changes to the fair value of the liability are recorded in the consolidated statement of net income. For the period ended January 29, 2022, the fair market value of future DSU cash-settlement obligations was \$1,738 (period ended January 30, 2021 – \$932). During the periods ended January 29, 2022 and January 30, 2021, the Company recorded a loss of \$367 and \$310, respectively, from the changes to fair market value of DSU cash-settlement obligations.

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:

	January 29, 2022	January 30, 2021
Legacy Equity Incentive Plan	\$ –	\$ 2
Legacy Employee Option Plan	–	52
Omnibus Plan	655	651
<b>Total share-based compensation expense</b>	<b>\$ 655</b>	<b>\$ 705</b>

## 14. 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 10, allowing it to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving financial forecasts. Market conditions are difficult to predict and there is no assurance that the Company will achieve its forecasts. In the event of non-compliance, the Company's lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants.

The contractual maturities of the Company's current and long-term financial liabilities as at January 29, 2022, excluding interest payments, are as follows:

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

	Carrying amount	Contractual cash flows	Remaining to maturity			
			Under 1 year	1 – 3 years	3 – 5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Accounts payable and accrued liabilities	\$ 28,307	\$ 28,307	\$ 28,307	\$ –	\$ –	\$ –
Long-term debt	60,779	62,248	4,613	57,635	–	–
Lease liabilities	88,137	102,250	22,904	38,793	25,258	15,295
	\$ 177,223	\$ 192,805	\$ 55,824	\$ 96,428	\$ 25,258	\$ 15,295

### (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 January 29, 2022 by \$199 (period ended January 30, 2021 – \$541), 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 January 29, 2022 by \$1,580 (period ended January 30, 2021 – \$1,261), 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 January 29, 2022 by \$818 (period ended January 30, 2021 – \$1,033).

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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

As at January 29, 2022, the Company's maximum exposure to credit risk for these financial instruments was as follows:

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Loan receivable	\$	633
Accounts receivable (Note 4)		5,984
	\$	6,617

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### (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 before interest expense, income taxes expense 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 total debt to Adjusted EBITDA ratio and a fixed charge coverage ratio. As at January 29, 2022, the Company was in compliance with its covenants under the Credit Facilities.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 15. Income taxes expense

The Company's income taxes expense comprises the following:

	January 29, 2022	January 30, 2021
Current income taxes expense	\$ 7,182	\$ 2,892
Deferred income taxes expense relating to the origination and reversal of temporary differences:	1,254	1,993
<b>Total income taxes expense</b>	<b>\$ 8,436</b>	<b>\$ 4,885</b>

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

	January 29, 2022	January 30, 2021
Combined basic federal and provincial average statutory tax rate	26.5%	\$ 26.5%
Non-deductible expenses	0.5%	2.9%
Deconsolidation of RTS USA Corp.	-	(17.6)%
Change in unrecognized deferred tax assets	-	16.6%
Other	-	(1.2)%
<b>Effective tax rate</b>	<b>27.0%</b>	<b>27.2%</b>

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

The deconsolidation of RTS USA Corp. led to the write-down of certain inter-company amounts for which the related deferred tax assets have not been recognized.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

Deferred tax assets have not been recognized in respect of the \$18,201 of tax losses for the period ended January 30, 2021.

For the period ended January 29, 2022, deferred tax assets have not been recognized in respect of capital losses as it is not probable that sufficient capital gains would be available in the future to utilize this attribute. Capital losses can be carried forward indefinitely.

The following tables outline the movements in the deferred tax liabilities:

	As at January 30, 2021	Expense (Recovery)	Other Comprehensive Income	Adjustment on amendment of IFRS 16 (note 2)	As at January 29, 2022
Deferred financing costs	\$ 157	\$ (83)	\$ –	\$ –	\$ 74
Fixed assets	(686)	276	–	–	(410)
Right-of-use assets and lease liabilities	(1,364)	(157)	–	31	(1,490)
Intangible assets and goodwill	17,898	1,776	–	–	19,674
Derivative obligations	(114)	27	207	–	120
Timing of reserve deductibility	–	(585)	–	–	(585)
	\$ 15,891	\$ 1,254	\$ 207	\$ 31	\$ 17,383

	As at February 1, 2020	Expense (Recovery)	Other Comprehensive Income	As at January 30, 2021
Deferred financing costs	\$ 101	\$ 56	\$ –	\$ 157
Fixed assets	296	(982)	–	(686)
Right-of-use assets and lease liabilities	(2,503)	1,139	–	(1,364)
Intangible assets and goodwill	16,091	1,807	–	17,898
Derivative obligations	(43)	(27)	(44)	(114)
	\$ 13,942	\$ 1,993	\$ (44)	\$ 15,891

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### 16. Contingencies

During the normal course of business, the Company, from time to time, becomes involved in various claims and legal proceedings. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to 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.

### 17. Personnel expenses

	January 29, 2022	January 30, 2021
Wages and salaries	\$ 43,389	\$ 38,782
Benefits and other incentives	10,704	6,367
	<u>\$ 54,093</u>	<u>\$ 45,149</u>

During the period ended January 29, 2022, personnel expenses of \$54,093 did not include the impact of any wage subsidies (note 20) (period ended January 30, 2021 - \$45,149).

### 18. 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 48.8% of the total issued and outstanding Shares and the Founders, through their wholly-owned entities, beneficially own approximately 12.5% of the total issued and outstanding Shares. All transactions described below are in the normal course of business and have been accounted for at their exchange value.

#### (a) Transactions with shareholders

The Company leases the building for its leather factory from companies that are under common control of the Founders. For the periods ended January 29, 2022, and January 30, 2021, the rent paid as it relates to the lease of these properties was \$284 and \$248, respectively.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

### (b) Transactions with key management personnel

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

	January 29, 2022	January 30, 2021
Salaries, benefits and incentives, and consulting fees	\$ 4,778	\$ 2,660
Management share-based compensation	649	446
Director fees	648	322
	<u>\$ 6,075</u>	<u>\$ 3,428</u>

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 Chief Financial Officer, on January 6, 2020, Ms. Roach was appointed to the role of Interim Chief Executive Officer on a temporary secondment basis. Ms. Roach provided her services at no cost to the Company during this time. On May 26, 2020, the Company announced the appointment of Ms. Roach as the Company's President and Chief Executive Officer, no longer on an interim basis. Ms. Roach continued in this role at minimal cost to the Company through December 31, 2020.

On February 8, 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 was to be repaid at the earlier of February 7, 2022 (six years from the inception of the loan) and upon a liquidity sale of the Company. Interest accrued at a rate of 4.0% per annum and was payable at the start of each calendar year following the date of the loan. Unpaid interest could be deemed paid by increasing the principal amount outstanding. As at January 29, 2022, the outstanding balance on the loan was \$633 (January 30, 2021 – \$608). The officer resigned from the Company effective August 9, 2019. The loan was repaid on February 7, 2022.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### 19. Deconsolidation of RTS USA Corp.

On April 29, 2020, the Company's wholly-owned subsidiary formerly known as Roots USA Corporation ("RTS USA Corp.") filed for protection under Chapter 7 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware ("Chapter 7 filing"). The filing resulted in the permanent closure of the Company's stores in Boston, Washington, and Chicago, as well as its pop-up location in Woodbury Commons, 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.

Under a Chapter 7 filing, control of RTS USA Corp. no longer rests with the Company, but rather with the court-appointed trustee in charge of administering the case. Accordingly, effective April 29, 2020, the Company no longer consolidates this wholly-owned subsidiary and has deconsolidated the assets and liabilities with respect to this subsidiary resulting in the difference being recorded as a net gain of \$4,774 in the consolidated statement of net income. Assets and liabilities related to the deconsolidation of RTS USA Corp. were as follows:

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Cash	\$	(541)
Inventories		(2,291)
Fixed assets		(561)
Right-of-use assets		(27,151)
Accounts payable		567
Lease liabilities		34,751
<hr/>		
Gain from the deconsolidation of RTS USA Corp.	\$	4,774

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During the period ended January 29, 2022, the Company incurred \$131 of costs associated with the Chapter 7 filing, recorded in selling, general and administrative expenses (period ended January 30, 2021 – \$1,283). The costs were primarily related to professional service fees and other costs incurred in relation to the Chapter 7 filing.



# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

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### **20. Government grants**

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canadian Emergency Wage Subsidy (“CEWS”) program in April 2020. CEWS provided a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. This subsidy began effective March 15, 2020 and ended on October 23, 2021. The qualification and application of the CEWS was assessed over multiple four-week application periods and was based on a rate determined by year-over-year revenue declines.

The Company determined that it qualified for this subsidy from the March 15, 2020 effective date through September 25, 2021 and, accordingly, applied for and received, the CEWS. The Company determined that it did not qualify for the CEWS in the final application period covering September 26, 2021 to October 23, 2021.

For the period ended January 29, 2022, the Company recognized \$5,932 (period ended January 30, 2021 – \$12,822) of CEWS and recorded it as a reduction to the eligible remuneration expense incurred by the Company during this period. An additional \$1,400 (period ended January 30, 2021 – \$263) respectively, was recorded as a reduction to cost of goods sold pertaining to CEWS previously received and recorded as a reduction to capitalized inventory manufacturing labour costs.

In October 2020, the Government of Canada announced the Canadian Emergency Rent Subsidy (“CERS”) program in order to provide rent relief measures for businesses that experienced revenue declines as a result of COVID-19. The CERS provided a rent subsidy for eligible property costs, such as rent on qualifying properties, based on certain criteria and is proportional to revenue declines as a result of COVID-19. Additionally, businesses who were subject to a lockdown under public health orders, and were part of the CERS program, may have qualified for Lockdown Support, a top-up CERS subsidy. Applications for the subsidy could only be submitted after rent payments were made. This subsidy was retroactive from September 27, 2020 and ended on October 23, 2021. The qualification and application of CERS was assessed over multiple four-week application periods.

The Company determined that it qualified for this subsidy from the September 27, 2020 effective date through September 25, 2021. The Company determined that it did not qualify for the CERS in the final application period covering September 26, 2021 to October 23, 2021.

For the period ended January 29, 2022, the Company has recognized \$1,967 (period ended January 30, 2021 – \$696) of CERS and has recorded it against certain property costs within selling, general and administrative expenses. As at January 29, 2022, there is \$155 of CERS recognized that has not yet been received and the Company expects to receive the remaining subsidy in the following fiscal year.

# ROOTS CORPORATION

## Notes to Consolidated Financial Statements

For the 52-week periods ended January 29, 2022 and January 30, 2021

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

The following table provides the impacts of the recognized CEWS and CERS within the Company's consolidated financial statements for the periods ended January 29, 2022 and January 30, 2021:

For the period ended January 29, 2022	CEWS	CERS	Total
<b>Reductions to:</b>			
Selling, general and administrative expenses	\$ 4,773	\$ 1,967	\$ 6,740
Cost of goods sold	638	–	638
Labour costs capitalized in inventory	521	–	521
Government subsidies qualified for in period	\$ 5,932	\$ 1,967	\$ 7,899
Reduction to cost of goods from government subsidies previously capitalized in inventory	\$ 1,400	–	\$ 1,400
<b>For the period ended January 30, 2021</b>			
For the period ended January 30, 2021	CEWS	CERS	Total
<b>Reductions to:</b>			
Selling, general and administrative expenses	\$ 9,639	\$ 696	\$ 10,335
Cost of goods sold	1,607	–	1,607
Labour costs capitalized in inventory	1,576	–	1,576
Government subsidies qualified for in period	\$ 12,822	\$ 696	\$ 13,518
Reduction to cost of goods from government subsidies previously capitalized in inventory	\$ 263	–	\$ 263

For the period ended January 29, 2022, the Company has recognized \$8,778 of government grants in the consolidated statement of net income (period ended January 30, 2021 – \$12,205).