



March 20, 2020

Dear Shareholders,

I'm writing to inform you of some important changes that have occurred since we sent our 2019 Annual Report for printing. The unprecedented public health impact of COVID-19 on our communities and the different measures implemented by governments worldwide have prompted us to adapt and implement some changes with regards to **Gildan's Annual General Meeting of Shareholders**. In light of this situation, and to mitigate risks to the health and safety of our communities, shareholders, employees and other stakeholders, **we have decided to hold the meeting in a virtual only format this year**, which will be conducted via live audio webcast. All shareholders, regardless of their geographic location, will have an equal opportunity to participate in the Meeting online and engage with directors and management of the Company as well as with other shareholders. I invite you to read our Notice of Meeting and Management Information Circular carefully, as it contains a description of the the business to be conducted at the meeting as well as detailed instructions on how to participate in the meeting online and vote your shares.

The Annual General Meeting is scheduled for 10:00 am (Eastern Time) on Thursday April 30th, 2020 and the webcast information will be available on the Company's website at <https://gildancorp.com/en/investors/events-and-presentations/>

Your participation in the meeting is important to us and we value your input as shareholders. If you have questions but are unable to attend the meeting online, you are always welcome to initiate communications with the Board through our Shareholder Engagement Policy, which is available on the Company's website at www.gildancorp.com.

I would also like to add that in light of the current worldwide pandemic situation resulting from COVID-19, the **Board of Directors has asked Bill Anderson, and he has accepted, to defer his scheduled retirement at the upcoming Annual General Meeting and continue his work as a Director through to February 2021**. Bill's extensive experience will be invaluable to the Board of Directors and management in these unprecedented times.

Finally, I would like to assure you that the Board of Directors and Gildan's management team are closely monitoring the status of COVID-19 and assessing ways to reduce risks to our employees and our business. We are committed to making the necessary decisions to continue to operate responsibly by implementing measures to protect our employees' health and well-being, while safeguarding the long-term health of our business.

Sincerely,

A handwritten signature in blue ink that reads "Donald C. Berg".

Donald C. Berg
Chairman of the Board

The background of the cover is a blue-tinted photograph of a city skyline with several skyscrapers. In the foreground, the collar and shoulder area of a blue t-shirt are visible, showing the ribbed texture of the fabric and the white inner lining of the collar.

**ANNUAL
REPORT**

2019

2019 HIGHLIGHTS

\$2.82B
in revenue

\$368M
returned to shareholders

\$227M
in free cash flow⁽¹⁾

60
markets
worldwide

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THE CHAIRMAN



It is an honour to have been appointed this past May as Chairman of the Board of Directors of Gildan Activewear, succeeding Bill Anderson, our Chairman since 2012 and a member of our Board since 2006. Bill will be retiring at this year's Annual General Meeting of Shareholders and on behalf of the entire Board of Directors, I would like to thank him for his many years of service and invaluable contributions to Gildan during this period of growth and change for the Company.

2019 was a challenging year for our Company with lower sales and earnings than the previous year. Nonetheless, despite this result, the Board was pleased with the progress made on the Company's strategic positioning, which is aimed at driving growth in our imprintables brands, retail brands and private brands of our customers by leveraging the Company's world class, large scale, low cost vertically-integrated manufacturing platform. With its manufacturing competitive advantage, free cash flow generating capabilities, strong balance sheet and effective capital allocation strategy, we continue to be confident about Gildan's prospects for delivering growth and value to all key stakeholders over the long-term.

In 2019, Gildan returned \$368 million of capital to shareholders in the form of dividends and share buy-backs. Given our conviction in the Company's long-term outlook, in February of 2020 the Board approved a 15% increase in the dividend, marking the eighth consecutive annual dividend increase. The Board also approved the renewal of the Company's normal course issuer bid to repurchase up to 5% of its issued and outstanding common shares.

BACK TO BASICS STRATEGY

During 2019 management significantly advanced its "Back to Basics" strategy, executing on various initiatives to simplify its product portfolio and optimize opera-

tions. While rightsizing and continuing to improve its production and distribution footprint in the western hemisphere, the Company also initiated plans to significantly expand its operations in the eastern hemisphere, with the start of development of a new major large-scale textile and sewing manufacturing complex in Bangladesh.

The Board fully supports the Back to Basics strategy, which is reinforcing the Company's core strengths to drive top and bottom-line growth opportunities.

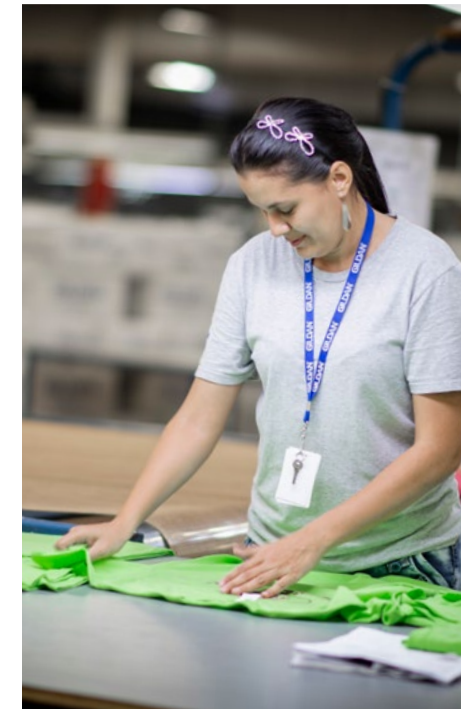
GENUINE RESPONSIBILITY*

As one of the world's largest vertically-integrated manufacturers of apparel, we understand that our continued commitment to operating responsibly and proactively implementing sustainable solutions throughout our operations is a critical factor of our future success. We are pleased to see continued progress with the Company's initiatives in the areas of Environmental, Social and Governance (ESG) practices and look forward to working with the management team in enhancing our programs in the coming year to continue to create value for all of our stakeholders.

In 2019, Gildan published its 2018 Genuine Responsibility® Sustainability report, the Company's 15th consecutive report presenting the Company's results and progress related to its three core areas of focus - its people, the environment and communities.

In the past year, the Board was pleased to see Gildan's labour compliance program, which aims to protect workers' rights and improve working conditions, be re-accredited by the Fair Labor Association (FLA). I am also delighted to say that the Company's Genuine Responsibility® program has been recognized by well-established organizations in the past year, including the Dow Jones Sustainability Index for the

seventh consecutive year. In January 2020, Gildan was included in the leadership band in CDP's 2019 scores for corporate transparency and action on climate change with an A- score. The Company also received a Bronze Class Distinction in the 2020 SAM Sustainability Yearbook. This was Gildan's eighth consecutive inclusion in the Sustainability Yearbook.



CARING FOR OUR PEOPLE AND THEIR COMMUNITIES

The Board of Directors is firmly committed to ensuring that strong support for human rights is well embedded across Gildan's supply chain and is proud of the positive and sustainable economic and social impact Gildan is having on its employees and in the communities where its facilities are located. The Company's approximately 53,000 employees are its most important asset and it is their skills and dedication that will continue to drive the Company's results. Because we know that a highly engaged and inclusive workforce can make the difference in our long-term success, **the Company continues to invest in programs related to health and safety and wellness, in addition to emphasizing employees' professional development.** Amongst its many contributions, Gildan offered more than 5 million hours

of training and development* to its employees and through numerous programs, provided support back to the communities in which it operates.

CONSERVING THE ENVIRONMENT

The Company continues to be focused on the risks and impacts of climate change and on ensuring that business strategies are developed to address these risks. In

this regard, Gildan updated its Global Environment and Energy Policy in 2019 to cover the latest energy and environmental challenges and opportunities, as well as industry best practices. This policy applies to all manufacturing and distribution facilities for Gildan-owned operations worldwide, as well as to its employees at all levels of the organization. The policy focuses on strengthening Gildan's environmental and energy performance as one of its highest priorities and embraces a proactive culture through the implementation of initiatives that build on its practices and ensures

that Gildan's environmental footprint is amongst the best in the industry.

Further, the Company continued to focus on achieving its 2020 environmental goals and is making progress despite challenging targets particularly related to energy consumption. In 2018, Gildan was able to have 40% of its total energy use come from renewable sources* and recycle or re-purpose 89% of its non-hazardous waste*.

ETHICS AND COMPLIANCE

The Board's ongoing commitment to implementing leading governance standards and to foster a culture of integrity, accountability and transparency across the organization continues to frame the Company's actions.

In this regard, a global ethics survey was conducted at the beginning of the year to gain better insights from employees as the Company continues



* The numbers are for Gildan's 2018 fiscal year. The 2019 ESG numbers will be published during the Summer of 2020. (1) Please refer to "Definition and reconciliation of non-GAAP financial measures" in the 2019 Management's Discussion and Analysis.

to develop its strong culture of ethics and compliance. In 2019, the Company also continued conducting extensive training throughout its global operations to ensure widespread understanding of its Code of Conduct and Code of Ethics.

A STRONG AND INVOLVED BOARD OF DIRECTORS

With an underlying objective of ensuring that all Directors have a solid understanding of Gildan's business model, in October 2019, Directors were provided with opportunities to visit Gildan's principal manufacturing hub in Honduras and interact with local management to gain a better understanding of Gildan's operations first-hand.

All of the Company's Directors also participated in industry trade shows this past year, which provided them with valuable insights into the North American printables industry as well as on Gildan's key customers and competitors in this channel.

I am pleased to announce that Luc Jobin was appointed to the Board, effective February 18, 2020, and joins us with extensive operational and financial expertise. Luc has had a career as a business leader in Canada spanning over 30 years and

most recently retired from the Canadian National Railway Company, where he served as President and Chief Executive Officer from 2016 to 2018 and as Executive Vice-President and Chief Financial Officer from 2009 to 2016. Prior to these roles, Luc held various executive level positions in major corporations including Power Corporation of Canada and Imperial Tobacco. We are looking forward to Luc's contributions to the Board of Directors.

Finally, I would like to thank Glenn, his leadership team and all of the Gildan employees that come to work every day with commitment, dedication and passion to make Gildan one of the world's leading apparel companies. I also thank you, our shareholders, for your trust and confidence in Gildan. As your representatives, the Board looks forward to working with the Gildan senior management team, as we move through the next phase of the Company's Back to Basics strategy, to deliver strong value for all stakeholders.

Sincerely,



Donald C. Berg
Chairman



A MESSAGE FROM

THE PRESIDENT & CEO



W eaker printables market demand in North America and softness in international printables markets hampered our financial performance in 2019 and our ability to meet the initial targets we set at the beginning of the year. Although we saw weak market conditions, this did not reflect a structural change in our business and we kept a strong focus on controllable areas of our operations. In this regard, I am pleased with the overall progress we made on our Back to Basics strategy during 2019, staying focused on the execution of several optimization initiatives to simplify our product portfolio and remove complexity in manufacturing and distribution operations. I believe these actions are strengthening our competitive position and our ability to achieve our financial targets as we drive to deliver growth in our key brand areas focused on printables, retail and private brands.

LOOKING BACK

To better understand where we stand today, I believe it is important to look back at the evolution of our business. Starting in the early 2000's, during the first phase of our growth, we made significant capital investments in Central America and the Caribbean Basin to position us as a large scale, low cost, vertically-integrated manufacturer. Our business model was based on a few basic principles, which drove us to focus on producing high-volume, basic apparel, limiting complexity within our product line offering, and operating responsibly with sustainability well-integrated into our business practices. This enabled us to provide better value to our customers and led to a decade of strong organic growth, positioning us as the leading supplier in the printables channel. Our second phase of growth, from 2008 to 2013, was built on further



leveraging our business model into adjacent markets, including expanding into international imprints markets and entering retail markets through acquisitions in other basic categories, specifically in the hosiery sector. Our third phase, from 2013 to 2017, was geared towards further broadening our brand and product portfolio and investing in ring-spun yarn-spinning operations, both enabling us to gain market share penetration in the fast-growing category of higher-value ring-spun basic products in imprints, and in retail, to expand into the underwear and activewear categories.

This brings us to our Back to Basics strategy, which we started to implement two years ago, with the goal of simplifying our business and optimizing operations by removing complexity that had built up in our business over the years through acquisitions. We started to execute on our plans early in 2018 with the realignment of our organizational structure and business segments, streamlining administrative, sales, marketing, and merchandising functions and consolidating certain warehouse distribution activities.

DRIVING OUR BACK TO BASICS STRATEGY

During 2019, we expanded our efforts and executed on additional Back to Basics initiatives aimed at leveraging our core competencies and focusing on what we do best.

DRIVING MANUFACTURING COST ADVANTAGE

Driving costs out of the business is a philosophy that has always been rooted in the Gildan culture and in 2019 we continued to execute on manufacturing initiatives to support this goal. We consolidated sheer hosiery manufacturing in Canada within our global supply chain and removed some of our higher cost sewing capacity by leveraging existing sewing operations in other geographical regions. With the slowdown in imprints demand, we also decided to accelerate plans to relocate our higher cost textile and sewing operations in Mexico to our operations in Central America and the Caribbean Basin.

Thinking longer-term, during 2019 we also acquired land in Bangladesh to

support significant capacity expansion plans in the country, which will not only better position us to execute on growth opportunities going forward but also diversify our manufacturing network.



The land is intended to be used as part of the construction and development of a major multi-plant manufacturing complex, which is currently expected to include two large textile facilities and related sewing operations to service international markets and support other key sales growth drivers.

SIMPLIFYING OUR PORTFOLIO

At the end of the fourth quarter of 2019, we announced a significant reduction in our imprints product line stock-keeping units (SKU) with the decision to exit all ship to-the-piece activities and discontinue overlapping and less productive styles and SKUs between brands. The ship to-the-piece business is a much more fragmented, smaller volume business which does not fit with our high-volume, large-scale imprints franchise. Accordingly, our aim is simply to reduce complexity in manufacturing and drive production efficiencies, remove higher distribution costs associated with shipping low-volume orders and reduce working capital requirements, all of which will ultimately drive margin expansion for our business going forward.

OPTIMIZING OUR DISTRIBUTION NETWORK AND INFRASTRUCTURE

We also continued to consolidate our distribution network in 2019 with the closure of smaller warehouses which had

been added to our system over the years as we integrated various acquisitions. In this regard, our Back to Basics approach in distribution is now to fully leverage our customers' extensive distribution networks and capabilities, while we focus on what we do best: low-cost manufacturing of high-volume replenishment-driven apparel products. Exiting ship to-the-piece activities will clearly remove complexity in distribution and the higher costs that come with fulfilling smaller orders directly to the end customer. Further, working with a lower SKU base will enable both us and our customers to improve productivity and reduce space requirements previously allocated to less productive SKUs within facilities.

MARKET TRENDS SUPPORTING OUR GROWTH DRIVERS

We are seeing several industry trends unfold which we believe are contributing positively to our key growth drivers in both the near and long-term.

GROWING SHARE WITH IMPRINTABLES BRANDS

Historically, we have been very successful within the North American imprints industry and have established a leading position in this channel. Still there are areas, such as the ring-spun product segment, where we have been growing share penetration and where we continue to see further opportunity. In addition, we are also seeing certain broader market trends which we believe will contribute to expanding the addressable market opportunity within imprints. These include the growing number of online players offering custom printed products, making decorated apparel more accessible; advancements in digital printing; accelerating demand for softer and lighter ring spun fabrics (fashion basics) and increasing fleece demand.

While we recognize the benefits associated with our decision to rationalize our North American SKU base, on the international front, our SKU base has historically been more limited. As such, we continue to see the potential to leverage the breadth of our North American product line to broaden our international product offering and enhance profitability. Further, as I mentioned earlier, **I am excited about our plans for our new Bangladesh complex, which should enhance our competitive positioning and support our imprints growth internationally.**

DRIVING NEW OPPORTUNITIES WITH OUR RETAIL BRANDS

Activewear sales to retailers under our own brands grew double-digits during 2019, including good growth in the craft channel. Moreover, sales of our products through online channels were also strong in 2019, with e-commerce sales up more than 40% compared to 2018. We see opportunities to grow our brand presence online with our Gildan®, American Apparel®, Gold Toe® and other brands, including Under Armour® licensed sock products. During the year, we exited direct-to-consumer fulfillment activities for certain retail brands, such as our American Apparel® brand, choosing to offer these products through major online retailers like Amazon. In doing so, we are focusing on our core competencies of manufacturing

and supplying our customers with high quality products at attractive prices, while leveraging the reach and strength of our customers' e-commerce infrastructure and extensive distribution capabilities.

CAPITALIZING ON SHIFT TO PRIVATE BRANDS

In recent years, we have seen a resurgence of private brands by traditional retailers focused on differentiating their product offerings. We feel we are well-positioned to supply these retailers who are seeking high quality, low-cost, large-scale reliable manufacturers to support their private brand program requirements. In 2019, we delivered strong double-digit sales growth in our underwear sales, mainly due to our new private brand men's underwear program with our largest mass retail customer. This program rolled-out earlier this year and gained additional shelf space during the fourth quarter of 2019 and will continue to contribute to growth in 2020, as the mass retail customer further expands the program. **Growing sales of private brands is proving to be a strong growth driver as we move into 2020 and we remain very focused on executing on this core area of our business.**

LOOKING AHEAD

Looking ahead to 2020, we will remain focused on executing on our strategy. Al-

though 2019 presented challenges, we did not allow this to distract us from our plans to fundamentally strengthen our business. I am proud of the progress we've made in streamlining and optimizing the front and back end of our business, while in parallel making strategic investments in capacity expansion. **These actions, which are driving gross margin and SG&A improvement, combined with our prospects for driving revenue growth in imprints, gaining further penetration with our retail brands, and growing as a trusted supplier of private brands to attractive large customers, gives me confidence in our ability to deliver strong shareholder value over the long-term.**

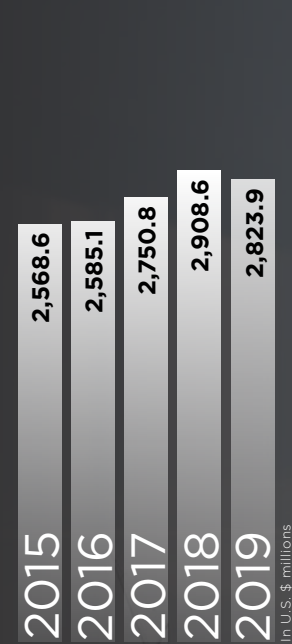
Finally, I would like to take this opportunity to thank our employees for their hard work and dedication, our customers for their loyalty, our Board for their support, and you, our shareholders, for the ongoing trust and confidence you place in us as we move forward with our vision of Making Apparel Better at Gildan.

Sincerely,

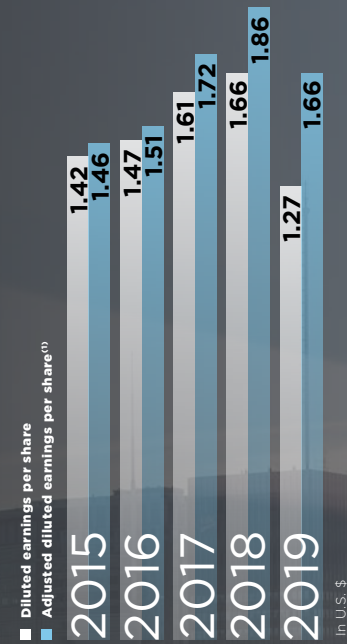
Glenn J. Chamandy
President and CEO



FINANCIAL HIGHLIGHTS



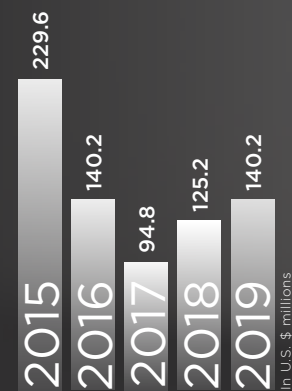
NET SALES



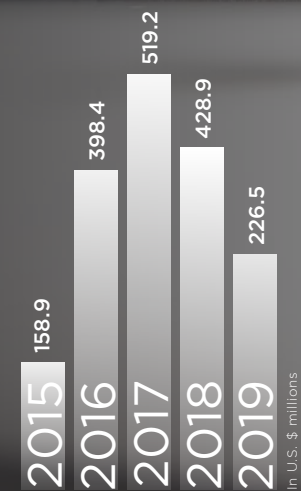
DILUTED EARNINGS PER SHARE



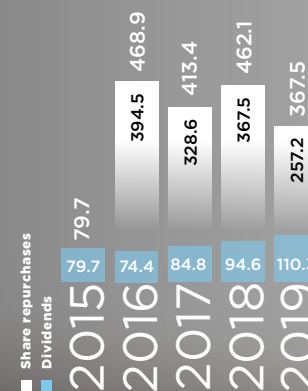
ADJUSTED EBITDA⁽¹⁾



CAPITAL EXPENDITURES



FREE CASH FLOW⁽¹⁾



RETURN OF CAPITAL

(1) Please refer to "Definition and reconciliation of non-GAAP financial measures" in the 2019 Management's Discussion and Analysis. Certain minor rounding variances exist between the consolidated financial statements and this summary.

Results shown on a calendar year basis

(In U.S.\$ millions, except per share data and ratios)

STATEMENT OF EARNINGS

	2019	2018	2017	2016	2015
Net sales	2,823.9	2,908.6	2,750.8	2,585.1	2,568.6
Adjusted EBITDA ⁽¹⁾	548.1	595.5	586.1	523.8	503.8
Gross Profit	704.5	806.0	801.2	719.7	687.3
Adjusted gross profit ⁽¹⁾	759.5	806.0	801.2	719.7	687.3
Operating income	289.0	403.2	401.0	371.5	367.5
Adjusted operating income ⁽¹⁾	391.3	437.4	423.9	383.2	378.9
Net earnings	259.8	350.8	362.3	346.6	346.1
Diluted earnings per share	1.27	1.66	1.61	1.47	1.42
Adjusted net earnings ⁽¹⁾	339.6	393.1	386.9	356.3	355.4
Adjusted diluted earnings per share ⁽¹⁾	1.66	1.86	1.72	1.51	1.46

CASH FLOW

Cash flows from operating activities	361.0	538.5	613.4	537.9	384.4
Capital expenditures	(140.2)	(125.2)	(94.8)	(140.2)	(229.6)
Free cash flow ⁽¹⁾	226.5	428.9	519.2	398.4	158.9

FINANCIAL POSITION

Total assets	3,211.1	3,004.6	2,980.7	2,990.1	2,834.3
Net indebtedness ⁽¹⁾	862.4	622.3	577.2	561.8	324.3
Shareholders' equity	1,834.5	1,936.1	2,051.4	2,119.6	2,188.4

FINANCIAL RATIOS

Adjusted EBITDA margin ⁽²⁾	19.4%	20.5%	21.3%	20.3%	19.6%
Gross margin ⁽³⁾	24.9%	27.7%	29.1%	27.8%	26.8%
Adjusted Gross margin ⁽⁴⁾	26.7%	27.7%	29.1%	27.8%	26.8%
Operating margin ⁽⁵⁾	10.2%	13.9%	14.6%	14.4%	14.3%
Adjusted operating margin ⁽⁶⁾	13.8%	15.0%	15.4%	14.8%	14.8%
Adjusted net earnings margin ⁽⁷⁾	12.0%	13.5%	14.1%	13.8%	13.8%
Return on net assets (RONA) ⁽¹⁾	13.3%	15.6%	14.9%	14.0%	14.9%
Net debt to adjusted EBITDA ⁽¹⁾	1.6x	1.0x	1.0x	1.0x	0.6x

(1) Please refer to "Definition and reconciliation of non-GAAP financial measures" in the 2019 Management's Discussion and Analysis.

(2) Adjusted EBITDA divided by net sales.

(3) Gross profit divided by net sales.

(4) Adjusted gross profit divided by net sales. For 2019, adjusted gross margin is calculated as adjusted gross profit divided by net sales excluding the sales return allowance for anticipated product returns related to discontinued SKUs as part of the strategic product line initiative. Please refer to "Definition and reconciliation of non-GAAP financial measures" in the 2019 Management's Discussion and Analysis.

(5) Operating income divided by net sales.

(6) Adjusted operating income divided by net sales. For 2019, adjusted operating margin is calculated as adjusted operating income divided by net sales excluding the sales return allowance for anticipated product returns related to discontinued SKUs as part of the strategic product line initiative. Please refer to "Definition and reconciliation of non-GAAP financial measures" in the 2019 Management's Discussion and Analysis.

(7) Adjusted net earnings divided by net sales.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

GENUINE RESPONSIBILITY®

Gildan's ongoing commitment to Genuine Responsibility® is rooted in the Company's business strategy and guides how our apparel is designed, made and sold. Our framework was developed based on our unique vertically-integrated business model and by focusing on matters that are most material to our stakeholders, and it is embedded in the decisions we make, the actions we take and the future we envision for our Company across three central pillars:

CARING FOR OUR PEOPLE

A commitment to maintaining industry-leading working conditions and labour practices at each of our worldwide locations and making investments that empower our people to succeed.



CONSERVING THE ENVIRONMENT

A commitment to the development and implementation of innovative solutions that reduce the environmental impact of our operations throughout our supply chain.



CREATING STRONGER COMMUNITIES

A commitment to assisting our communities through dedicated support for education, active living, entrepreneurship and the environment.



UNITED NATION SUSTAINABLE DEVELOPMENT GOALS

Gildan is committed to leveraging its strengths in support of the United Nation's Sustainable Development Goals (SDGs). We have targeted the following four specific SDGs against which we believe we can create the most positive impact.



Our commitments and actions are presented in our most recent Sustainability Report available at:

genuineresponsibility.com

RE-ACCREDITATION BY THE FAIR LABOR ASSOCIATION

In 2019, Gildan's social compliance program was re-accredited by the Fair Labor Association after the Company demonstrated in a lengthy review process that it continues to have strong policies and practices in place to identify and remediate unfair labour practices throughout its global supply chain. In 2007, Gildan became the first vertically-integrated apparel manufacturer to have its social compliance program accredited by the FLA.



OUR TOP 5 AREAS OF FOCUS

CHEMICAL MANAGEMENT

PRIORITIZING THE IMPLEMENTATION OF A ROBUST CHEMICAL MANAGEMENT SYSTEM AND STRINGENT STANDARDS WHICH ARE SET IN OUR RESTRICTED SUBSTANCES CODE OF PRACTICE (RSCP).

ALL KEY SUPPLIERS HAVE RECEIVED TRAINING ON GILDAN'S RSCP AND CHEMICAL MANAGEMENT SYSTEM.

HUMAN & LABOUR RIGHTS

PRIORITIZING THE STRICT IMPLEMENTATION OF CODES AND POLICIES DESIGNED TO PROTECT THE RIGHTS OF EMPLOYEES AT ALL OF OUR OPERATIONS AND THROUGHOUT OUR SUPPLY CHAIN BASED ON THE UNITED NATION'S INTERNATIONAL BILL OF HUMAN RIGHTS.

MORE THAN 50% OF OUR EMPLOYEES ARE COVERED BY A COLLECTIVE BARGAINING AGREEMENT.

ENERGY & EMISSIONS MANAGEMENT

PRIORITIZING INVESTMENTS IN TECHNOLOGIES AND INITIATIVES TO REDUCE OUR ENERGY CONSUMPTION, INCREASE RENEWABLE ENERGY GENERATION AND OPTIMIZE ENERGY EFFICIENCY THROUGHOUT OUR OPERATIONS.

40% OF OUR TOTAL ENERGY IS POWERED FROM RENEWABLE SOURCES*.

OCCUPATIONAL HEALTH & SAFETY

PRIORITIZING THE IMPLEMENTATION OF STRONG STRUCTURES AND PROCESSES TO ENSURE THE SAFETY AND WELL-BEING OF OUR EMPLOYEES.

OVER THE PAST TEN YEARS, OUR WORK-RELATED INJURY RATE HAS DECREASED BY 50% AND OUR SEVERITY RATE BY 67%.

OCCUPATIONAL WATER & WASTEWATER MANAGEMENT

PRIORITIZING THE EFFICIENT USE OF WATER AND THE RESPONSIBLE MANAGEMENT OF WASTEWATER THROUGH INNOVATIVE TECHNOLOGY AND PROCESSES.

THE VAST MAJORITY OF OUR WASTEWATER IS TREATED BIOLOGICALLY BY OUR NATURAL BIOTOP SYSTEM OR OUR BIOLOGICAL REACTORS.

GILDAN IS RECOGNIZED AS A GLOBAL RESPONSIBILITY LEADER

IN 2019, GILDAN'S PROGRAMS WERE RECOGNIZED BY THE FOLLOWING KEY RATING ORGANIZATIONS:



* The numbers are for Gildan's 2018 fiscal year. The 2019 ESG numbers will be published during the Summer of 2020.

OUR BRANDS



2019 REPORT TO SHAREHOLDERS February 21, 2020

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1.0 PREFACE

In this Management's Discussion and Analysis (MD&A), "Gildan", the "Company", or the words "we", "us", and "our" refer, depending on the context, either to Gildan Activewear Inc. or to Gildan Activewear Inc. together with its subsidiaries.

This MD&A comments on our operations, financial performance and financial condition as at and for the years ended December 29, 2019 and December 30, 2018. All amounts in this MD&A are in U.S. dollars, unless otherwise noted. For a complete understanding of our business environment, trends, risks and uncertainties, and the effect of accounting estimates on our results of operations and financial condition, this MD&A should be read in conjunction with Gildan's audited annual consolidated financial statements for the year ended December 29, 2019 and the related notes.

In preparing this MD&A, we have taken into account all information available to us up to February 21, 2020, the date of this MD&A. The audited annual consolidated financial statements and this MD&A were reviewed by Gildan's Audit and Finance Committee and were approved and authorized for issuance by our Board of Directors on February 19, 2020.

All financial information contained in this MD&A and in the audited annual consolidated financial statements has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), except for certain information discussed in the section entitled "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Additional information about Gildan, including our 2019 Annual Information Form, is available on our website at www.gildancorp.com, on the SEDAR website at www.sedar.com, and on the EDGAR section of the U.S. Securities and Exchange Commission website (which includes the Annual Report on Form 40-F) at www.sec.gov.

2.0 CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this MD&A constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities legislation and regulations and are subject to important risks, uncertainties, and assumptions. This forward-looking information includes, amongst others, information with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates, and intentions. In particular, information appearing under the headings "Our business - Our operations", "Strategy and objectives", "Operating results", "Liquidity and capital resources - Long-term debt and net indebtedness", and "Outlook" contain forward looking statements. Forward-looking statements generally can be identified by the use of conditional or forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "project", "assume", "anticipate", "plan", "foresee", "believe", or "continue", or the negatives of these terms or variations of them or similar terminology. We refer you to the Company's filings with the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission, as well as the risks described under the "Financial risk management", "Critical accounting estimates and judgments", and "Risks and uncertainties" sections of this MD&A for a discussion of the various factors that may affect the Company's future results. Material factors and assumptions that were applied in drawing a conclusion or making a forecast or projection are also set out throughout this document.

Forward-looking information is inherently uncertain and the results or events predicted in such forward-looking information may differ materially from actual results or events. Material factors, which could cause actual results or events to differ materially from a conclusion, forecast, or projection in such forward-looking information, include, but are not limited to:

- our ability to implement our growth strategies and plans;
- our ability to successfully integrate acquisitions and realize expected benefits and synergies;
- the intensity of competitive activity and our ability to compete effectively;
- changes in general economic and financial conditions globally or in one or more of the markets we serve;
- our reliance on a small number of significant customers;
- the fact that our customers do not commit to minimum quantity purchases;
- our ability to anticipate, identify, or react to changes in consumer preferences and trends;
- our ability to manage production and inventory levels effectively in relation to changes in customer demand;
- fluctuations and volatility in the price of raw materials used to manufacture our products, such as cotton, polyester fibres, dyes and other chemicals;
- our reliance on key suppliers and our ability to maintain an uninterrupted supply of raw materials and finished goods;

- the impact of climate, political, social, and economic risks, natural disasters, and pandemics in the countries in which we operate or sell to, or from which we source production;
- disruption to manufacturing and distribution activities due to such factors as operational issues, disruptions in transportation logistic functions, labour disruptions, political or social instability, bad weather, natural disasters, pandemics, such as the coronavirus, and other unforeseen adverse events;
- compliance with applicable trade, competition, taxation, environmental, health and safety, product liability, employment, patent and trademark, corporate and securities, licensing and permits, data privacy, bankruptcy, anti-corruption and other laws and regulations in the jurisdictions in which we operate;
- the imposition of trade remedies, or changes to duties and tariffs, international trade legislation, bilateral and multilateral trade agreements and trade preference programs that the Company is currently relying on in conducting its manufacturing operations or the application of safeguards thereunder;
- factors or circumstances that could increase our effective income tax rate, including the outcome of any tax audits or changes to applicable tax laws or treaties;
- changes to and failure to comply with consumer product safety laws and regulations;
- changes in our relationship with our employees or changes to domestic and foreign employment laws and regulations;
- negative publicity as a result of actual, alleged, or perceived violations of labour and environmental laws or international labour standards, or unethical labour or other business practices by the Company or one of its third-party contractors;
- changes in third-party licensing arrangements and licensed brands;
- our ability to protect our intellectual property rights;
- operational problems with our information systems as a result of system failures, viruses, security and cyber security breaches, disasters, and disruptions due to system upgrades or the integration of systems;
- an actual or perceived breach of data security;
- our reliance on key management and our ability to attract and/or retain key personnel;
- changes in accounting policies and estimates; and
- exposure to risks arising from financial instruments, including credit risk on trade accounts receivables and other financial instruments, liquidity risk, foreign currency risk, and interest rate risk, as well as risks arising from commodity prices.

These factors may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on the Company's business. For example, they do not include the effect of business dispositions, acquisitions, other business transactions, asset write-downs, asset impairment losses, or other charges announced or occurring after forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

There can be no assurance that the expectations represented by our forward-looking statements will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding the Company's future financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date hereof, and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

3.0 OUR BUSINESS

3.1 Overview

Gildan is a leading manufacturer of everyday basic apparel, including activewear, underwear, socks, hosiery, and legwear products sold in North America, Europe, Asia-Pacific, and Latin America to wholesale distributors, screenprinters or embellishers, as well as to retailers in North America, including mass merchants, department stores, national chains, specialty retailers, craft stores, and pure-play online retailers that sell directly to consumers through their physical stores and/or e-commerce platforms, and to global lifestyle brand companies. Since its formation, the Company has made significant capital investments in developing its own large-scale, low-cost vertically integrated supply chain, encompassing yarn production, textile and sock manufacturing, and sewing operations. Gildan's manufacturing operations are located in Central America, the Caribbean Basin, North America, and Bangladesh.

We believe the skill set that we have developed in designing, constructing, and operating our own manufacturing facilities combined with the significant capital investments made over the years in that respect, which have been above industry

average capital intensity levels, are factors that differentiate us from our competition. More than 90% of our sales are derived from products we manufacture ourselves. Owning and operating the vast majority of our manufacturing facilities allows us to exercise tighter control over our production processes, efficiency levels, costs and product quality, as well as to provide reliable service with short production/delivery cycle times. In addition, running our own operations allows us to ensure adherence to high standards for environmental and social responsibility practices throughout our supply chain.

3.2 Our Operations

3.2.1 Brands, Products, and Customers

The products we manufacture and sell are marketed under our Company-owned brands, including Gildan®, American Apparel®, Comfort Colors®, Gildan® Hammer™, Prim + Preux®, GoldToe®, Anvil® by Gildan®, Alstyle®, Secret®, Silks®, Kushyfoot®, Secret Silky®, Therapy Plus®, Peds® and MediPeds®. Through a sock licensing agreement providing us exclusive distribution rights in the United States and Canada, we also sell socks under the Under Armour® brand. In addition, we manufacture for and supply products to select leading global athletic and lifestyle brands, as well as to certain retail customers who market these products under their own brands.

Our primary product categories include activewear tops and bottoms, hosiery, and underwear, the vast majority of which we manufacture. Some of our brands also extend to other categories such as intimates, sheer hosiery and shapewear, which are primarily sourced through third-party suppliers.

We sell our activewear products primarily in “blank” or undecorated form, without imprints or embellishment. These activewear products are primarily sold to wholesale distributors within the imprintables channel, who then sell the blanks to screenprinters/embellishers who decorate the products with designs and logos, and in turn sell the embellished/imprinted activewear into a highly diversified range of end-use markets. These include educational institutions, athletic dealers, event merchandisers, promotional product distributors, charitable organizations, entertainment promoters, travel and tourism venues, and retailers. The activewear products have diverse applications, such as serving as work or school uniforms or athletic team wear or simply conveying individual, group, and team identity. We also sell activewear products to various retailers, in addition to underwear and socks for men, ladies, and kids, as well as other hosiery products such as pantyhose and leggings. These retailers include mass merchants, department stores, national chains, sports specialty stores, craft stores, food and drug retailers, dollar stores and price clubs, all of which sell to consumers through their brick and mortar outlets. Consumers also buy our products online through e-commerce platforms, including pure-play online retailers and brick and mortar retail customers' e-commerce platforms. In addition to selling our products to retailers, we manufacture for and sell to select leading global athletic and lifestyle consumer brand companies who distribute these products within the retail channel.

The following table summarizes our product and brand offerings:

Primary product categories	Product-line details	Brands
Activewear	T-shirts, fleece tops and bottoms, and sport shirts	Gildan®, Gildan Performance®, Gildan Platinum® ⁽¹⁾ , Gildan® Hammer™, Comfort Colors® ⁽²⁾ , American Apparel®, Anvil® by Gildan®, Alstyle® ⁽²⁾ , Prim + Preux®, GoldToe®
Hosiery	athletic, dress, casual and workwear socks, liner socks, socks for therapeutic purposes ⁽⁴⁾ , sheer panty hose ⁽⁵⁾ , tights ⁽⁵⁾ , and leggings ⁽⁵⁾	Gildan®, Gildan Platinum® ⁽¹⁾ , Under Armour® ⁽³⁾ , GoldToe®, PowerSox®, GT a GoldToe Brand®, Silver Toe®, Signature Gold by Goldtoe®, Peds®, MediPeds®, Kushyfoot® ⁽¹⁾ , Therapy Plus® ⁽¹⁾ , All Pro®, Secret® ⁽¹⁾ , Silks® ⁽¹⁾ , Secret Silky®, American Apparel®
Underwear	men's and boys' underwear (tops and bottoms) and ladies panties	Gildan®, Gildan Platinum® ⁽¹⁾
Intimates	ladies' shapewear, intimates, and accessories	Secret® ⁽¹⁾ , Secret Silky®

(1) Gildan Platinum® and Kushyfoot® are registered trademarks in the U.S. Secret®, Silks®, and Therapy Plus® are registered trademarks in Canada.

(2) Comfort Colors® and Alstyle® are registered trademarks in the U.S.

(3) Under license agreement for socks only - with exclusive distribution rights in the U.S. and Canada.

(4) Applicable only to Therapy Plus® and MediPeds®.

(5) Applicable only to Secret®, Silks®, Secret Silky®, and Peds®.

3.2.2 Manufacturing

The vast majority of our products are manufactured in facilities that we own and operate. To a lesser extent, we also use third-party contractors to supplement our requirements. Our vertically integrated manufacturing operations include capital-intensive yarn-spinning, textile and sock manufacturing facilities, as well as labour-intensive sewing facilities. Our manufacturing operations are situated in four main hubs, specifically in the United States, Central America, the Caribbean Basin and Bangladesh. All of our yarn-spinning operations are located in the United States, while textile, sewing, and sock manufacturing operations are situated in the other geographical hubs mentioned above, the largest of which is in Central America, in Honduras.

In order to support further sales growth, we are continuing to expand our manufacturing capacity in Central America and Bangladesh and are also making investments in technology to enhance our capabilities in the production of fashion basics and performance garments.

Developments in 2019

During the latter part of 2018 and during 2019, we began to consolidate some of our textile, sock, and sewing operations as part of our efforts to optimize our global manufacturing system and we announced plans to expand capacity in certain regions.

- i. We began operations towards the end of the second quarter of 2018 at our newest textile facility, Rio Nance 6 in Honduras, that is equipped to manufacture open-width and tubular fabric production. We have been ramping up production at Rio Nance 6 throughout 2019.
- ii. During the second quarter of 2019, we completed the purchase of land, in close proximity to our existing facility in Bangladesh. The land is intended to be used as part of the construction and development of a large multi-plant manufacturing complex, which is currently expected to include two large textile facilities and related sewing operations, to service international markets and support other key sales growth drivers.
- iii. During the third quarter of 2019, we consolidated sheer hosiery manufacturing within our global supply chain through the closure of our sheer hosiery facility in Canada.
- iv. During the fourth quarter of 2019, we began to execute on plans for the closure of our textile and sewing operations in Mexico and began to ramp down production and relocate the equipment at these facilities to our operations in Central America and the Caribbean Basin. Operations in Mexico are expected to cease at the end of the first quarter of 2020.

The following table provides a summary of our primary manufacturing operations by geographic area:

	United States	Central America	Caribbean Basin	Mexico	Asia
Yarn-spinning facilities⁽¹⁾: conversion of cotton, polyester and other fibres into yarn	<ul style="list-style-type: none"> ■ Clarkton, NC ■ Cedartown, GA ■ Columbus, GA ■ Salisbury, NC (2 facilities) ■ Mocksville, NC ■ Eden, NC 				
Textile facilities: knitting yarn into fabric, dyeing and cutting fabric		<ul style="list-style-type: none"> ■ Honduras (4 facilities) 	<ul style="list-style-type: none"> ■ Dominican Republic 	<ul style="list-style-type: none"> ■ Agua Prieta⁽⁴⁾ 	<ul style="list-style-type: none"> ■ Bangladesh
Sewing facilities⁽²⁾: assembly and sewing of cut goods		<ul style="list-style-type: none"> ■ Honduras (3 facilities) ■ Nicaragua (3 facilities) 	<ul style="list-style-type: none"> ■ Dominican Republic (3 facilities) 	<ul style="list-style-type: none"> ■ Hermosillo⁽⁴⁾ 	<ul style="list-style-type: none"> ■ Bangladesh
Garment-dyeing⁽³⁾: pigment dyeing or reactive dyeing process		<ul style="list-style-type: none"> ■ Honduras 			
Hosiery manufacturing facilities: conversion of yarn into finished socks/sheer hosiery		<ul style="list-style-type: none"> ■ Honduras 			

(1) While the majority of our yarn requirements are internally produced, we also use third-party yarn-spinning suppliers, primarily in the U.S., to satisfy the remainder of our yarn needs.

(2) Although the majority of our sewing facilities are Company-operated, we also use the services of third-party sewing contractors, primarily in Haiti, Nicaragua and other regions in Central America, to satisfy the remainder of our sewing requirements.

(3) Garment dyeing is a feature of our Comfort Colors® products only, which involves a different dyeing process than how we typically dye the majority of our products. Our garment dyeing operations are located in our Rio Nance 3 facility in Honduras.

(4) See subsection 3.2.2. entitled Manufacturing "Developments in 2019" - (iv).

3.2.3 Genuine Responsibility™

Embedded in our long-term vision of 'Making Apparel Better', our commitment to operating responsibly and integrating sustainability into our business practices is a key part of our business strategy and has been an important element of our success. Over the past two decades, we have developed our Genuine Responsibility™ Corporate Responsibility program, incorporating industry-leading guidelines to govern our business activities and operations, and to provide a framework for responsible labour practices, sustainability programs, and social initiatives. Our program is centered around three fundamental priorities, namely 'Caring for our People', 'Conserving the Environment', and 'Creating Stronger Communities'.

We are committed to empowering our people through training and development programs and providing industry leading working conditions and progressive compensation packages at each of our worldwide locations. Our efforts around conserving the environment include the investment in and implementation of innovative solutions that reduce the environmental impact of our operations throughout our supply chain, including responsibly managing water usage, wastewater, energy, carbon emissions, and solid waste. We also strive to create stronger communities in all regions where we operate through dedicated support for education, active living, entrepreneurship, and environmental stewardship initiatives.

Gildan recognizes that transparency is an important driver of our ongoing efforts, allowing closer engagement with a wide array of stakeholders, and is proud to have published its fifteenth consecutive Sustainability Report in 2019. Reported under the stringent GRI-Comprehensive guidelines, this report describes our progress, challenges, and future goals and initiatives. We are proud of our accomplishments in the area of corporate social responsibility and the recognitions we have earned, including our seventh consecutive inclusion in the Dow Jones Sustainability Index and our 12th FundaHRSE CSR seal. We remain committed to furthering our efforts in the areas of focus we have outlined as part of our Genuine Responsibility™ program. Please refer to www.genuineresponsibility.com for more information.

3.2.4 Sales, marketing, and distribution

Our global sales and marketing office is located in Christ Church, Barbados, out of which we have established customer-related functions, including sales management, marketing, customer service, credit management, sales forecasting, and production planning, as well as inventory control and logistics. We also maintain sales support offices in the U.S. We have established extensive distribution operations primarily through internally managed and operated distribution centres. We distribute our products primarily out of large Company-operated distribution centres and smaller facilities in the U.S., as well as out of our Company-owned distribution facility in Honduras. To supplement some of our distribution needs, we also use third-party warehouses in North America, Europe, and Asia.

3.2.5 Employees and corporate office

We currently employ approximately 53,000 employees worldwide. Our corporate head office is located in Montreal, Canada.

3.3 Competitive environment

The basic apparel market for our products is highly competitive and continuously evolving. Changing market dynamics, such as the growth of online shopping, declining store traffic trends, as well as retailer closures and consolidation, are intensifying competition. Competition is generally based upon price, quality and consistency, comfort, fit, style, brand, and service. We compete on these factors by leveraging our competitive strengths, including our strategically located manufacturing operations and supply chain, scale, cost structure, global distribution, and our brand positioning in the markets we serve. Not all of our competitors manufacture their own products and among those competitors that do, we believe we are more vertically-integrated. More specifically, our vertical integration begins with owning and operating large-scale yarn-spinning facilities, where we produce yarn, which is then used to produce textile in our textile operations, before being cut and assembled in our Company-operated sewing facilities. We believe our manufacturing skill set together with the significant supply chain infrastructure that we have developed, and in which we have made significant capital investments over time, are key competitive strengths.

We face competition from large and smaller U.S.-based and foreign manufacturers or suppliers of basic family apparel. Among the larger competing North American-based manufacturers are Fruit of the Loom, Inc., a subsidiary of Berkshire Hathaway Inc., which competes through its own brand offerings and those of its subsidiary, Russell Corporation, as well as Hanesbrands Inc. These companies manufacture out of some of the same geographies as Gildan and compete primarily within the same basic apparel product categories in similar channels of distribution in North America and international markets. In socks and underwear, our competitors also include Renfro Corporation, Jockey International, Inc., and Kayser Roth Corporation. In addition, we compete with smaller U.S.-based companies selling to or operating as wholesale distributors of imprintable activewear products, including Next Level Apparel, Color Image Apparel, Inc. (owner of the Bella + Canvas brand), and Delta Apparel Inc., as well as Central American and Mexican manufacturers that supply products into this channel. Competing brands also include various private label brands controlled and sold by many of our customers, including wholesale distributors within the imprintables channel and retailers. In recent years, we have seen an increase in private label offerings,

particularly within the mass retail channel, replacing branded offerings. While private brands may compete against our own brands, the shift to private brand offerings by retailers is also presenting the Company with revenue-generating opportunities, as these retailers seek strategic suppliers with the type of manufacturing capabilities that we can provide to support their offerings.

4.0 STRATEGY AND OBJECTIVES

We execute our strategy by leveraging our competitive strengths, including our manufacturing excellence, our large-scale, low-cost vertically-integrated supply chain, our reputation for leading sustainable and ethical practices, our strong brands and long-standing customer relationships, as well as the talent of our people.

Back to Basics

Two years ago, we embarked on our “Back to Basics” plan to simplify our business and optimize operations by removing some of the complexity that had built up into our business over the years through acquisitions. We started to execute on our plans early in 2018 when we realigned our organizational structure and consolidated our business segments into one front-end organization, streamlining administrative, marketing, and merchandising functions and consolidating certain warehouse distribution activities. During 2019, we expanded on various optimization initiatives. We are focusing on the following main areas: i) simplifying our product portfolio and rationalizing less productive styles or stock-keeping-units (SKUs), while introducing new products in under-penetrated North American and international growth areas; ii) driving manufacturing cost advantage and flexibility by enhancing our production capabilities through new capacity expansion in Central America and Bangladesh and consolidating higher-cost textile, sock, and sewing facilities within our existing manufacturing base; and iii) optimizing our distribution network and infrastructure by leveraging our imprintables distributor network, including exiting ship-to-the-piece activities, as well as leveraging the distribution capabilities of our retail and e-commerce partners. Charges taken by the Company during fiscal 2019 relating to a major initiative in the implementation of our Back to Basics strategy, are described under the heading “Recent Developments” in subsection 5.3.1. Our Back to Basics approach is to focus on what we do best and remain close to the roots of our success, of being a world-class manufacturer of basic apparel and leveraging our core competencies to drive our four main strategic growth drivers.

4.1 Growing share with imprintable brands

Several trends in imprintables are contributing positively to overall growth prospects, including the arrival of online players offering custom printed products and making decorated apparel more accessible to individuals and small businesses. Furthermore, advancements in digital printing, in terms of speed, affordability and quality, as well as reducing the barriers to entry with lower set-up costs compared to traditional screen printing, have created new opportunities for decorators and online players.

4.1.1. Driving market share growth in higher value ring-spun products

In the North American imprintables channel, the Company historically focused on the basics category of activewear products, manufactured primarily from open-end cotton yarn and tubular manufacturing production, and over the years gained significant market share with the Gildan® brand becoming the leader in this category. In more recent years, we have seen an acceleration of demand for softer and lighter fabrics, often referred to as fashion basics products. These products are produced with higher quality cotton ring-spun yarns and/or blended yarn fibres and may feature more fitted silhouettes, side-seam stitching, and stretch attributes, among other characteristics. Over the last few years, we started to position ourselves to compete and gain market share in this category of imprintables. We developed and acquired brands which we believe are well positioned to drive growth in fashion basics. We invested in developing our own yarn-spinning manufacturing facilities, thereby securing our own cost-effective ring-spun yarn supply. In addition, our newest textile facility Rio Nance 6, which began production during 2018, is being ramped up with new equipment geared for more efficient production of fashion basics. Our portfolio of fashion brands under the Gildan® brand umbrella for the value-oriented customer includes the Gildan® Softstyle®, Gildan® Hammer™, and Anvil® by Gildan® brands. In addition, under the Gildan Performance® line we market products featuring moisture wicking and anti-microbial properties for long-lasting comfort and performance. Our higher price point fashion offerings include the American Apparel® brand positioned as a premium brand in fashion basics, and the Comfort Colors® brand, also a premium brand, which features garment-dyed activewear products. More recently, we introduced a new line of fashionable sport shirts under the Prim + Preux® brand. With a comprehensive portfolio, covering a wide range of fabrications, weights, and styles at different price points, supported by cost-effective manufacturing operations, including yarn capabilities, we believe we are well positioned to drive market leadership for higher value ring-spun products, reinforce our core brands, and grow in under-penetrated categories.

4.1.2 Driving international growth

We are also pursuing further growth within the imprints channel of international markets, focusing on Europe, Asia-Pacific, and Latin America, where we estimate the addressable market opportunity in aggregate to be large. Currently our sales outside the United States and Canada are just over 10% of our total consolidated net sales. We are continuing to expand our manufacturing capacity to support further penetration in these markets where our growth has been somewhat restricted by capacity availability. We have been increasing capacity at our smaller manufacturing facility in Bangladesh, which is dedicated to supporting international markets. In addition, during the second quarter of 2019, we purchased a large parcel of land in Bangladesh and announced plans to significantly expand our manufacturing capabilities there with the construction and development of a large multi-plant manufacturing complex which the Company believes will enhance its positioning to service international markets and support other key sales growth drivers. The planned incremental capacity from Bangladesh is expected to allow us to fully service the European and Asian markets from Bangladesh and free up capacity in Central America, which is currently used to support some of our requirements for the European market. Freed up capacity in Central America is expected to be used to support incremental sales growth in North America and Latin America. Further to expanding manufacturing capacity in support of driving international imprints growth, we also intend to leverage the breadth of our core North American product line to further develop and broaden our international product offering and enhance the profitability mix of our international sales.

4.2 Driving new opportunities with our retail brands

Gildan's retail brands, including Gildan®, American Apparel®, GoldToe®, Peds®, Secret® and related brand extensions, as well as Under Armour®, a licensed brand for socks, are well established within the retail channel, with presence in both brick and mortar stores and online platforms. E-commerce is increasingly gaining share in the retail industry and we recognize that there is opportunity to grow our brand presence online. We are targeting to grow the sales of our brands with retailers, focusing on customers with omni-channel presence. Under our Back to Basics strategy we are focusing on our core competencies, offering our customers large-scale reliable manufacturing for high quality products at attractive prices while we seek to leverage the reach and strength of our customers' e-commerce infrastructure and extensive distribution capabilities.

4.3 Capitalizing on shift to private brands

In recent years, we have seen a resurgence of private label brands by traditional retailers trying to differentiate their offering and enhance profitability. While we continue to pursue sales growth with our own brands, in light of the rising trend of retailers shifting focus to proprietary private label brands, particularly mass merchants, the Company recognizes its strong positioning to supply retailers who are seeking low-cost, large-scale reliable manufacturers to support their private label program requirements. The Company intends to pursue private label programs aligned to its operational and financial criteria, including product and SKU complexity and size of program, financial return targets, duration or term of expiry of the agreement, and working capital investment requirements, among other factors of consideration. We have also developed strong relationships with, and are targeting to grow our sales as a supply chain partner to, select leading global athletic and lifestyle brands for which we manufacture products, but against which our brands do not compete directly. These customers market their brands through their own retail stores, online and/or in other retailer outlets. We believe we are well positioned to service global brands that are increasingly looking to source from manufacturers that meet rigorous quality and social compliance criteria and are strategically located in the Western Hemisphere. Additionally, the majority of our sales to global lifestyle brands is primarily derived from the sale of activewear products. In recent years, we have also been selling sock products to one of our global brand customers. We believe there is an opportunity to leverage our relationships with these customers to continue to grow our sales in activewear and expand into the other product categories we manufacture, such as socks and underwear.

4.4 Enhancing sales and earnings growth with acquisitions that complement our strategy

We believe we can enhance our sales and earnings growth with complementary strategic acquisitions, and we have available free cash flow and debt financing capacity to pursue opportunities which meet our criteria. Over the past decade, we have completed acquisitions which have added brands to our portfolio or expanded our product offering, enhanced our manufacturing capabilities, or expanded our distribution or presence in geographical markets. The three main considerations around which we have developed our criteria for evaluating acquisition opportunities include: (1) strategic fit; (2) ease of integration; and (3) financial targets, including return on investment thresholds, based on our risk-adjusted cost of capital.

5.0 OPERATING RESULTS

5.1 Overview

This MD&A comments on our operations, financial performance, and financial condition as at and for the fiscal year ended December 29, 2019 (fiscal 2019) and the fiscal year ended December 30, 2018 (fiscal 2018).

Following an internal reorganization which took effect on January 1, 2018 and resulted in the consolidation of the Company's divisional organizational structure, the Company manages its business on the basis of one reportable operating segment.

5.2 Non-GAAP financial measures

We use non-GAAP financial measures (non-GAAP measures) to assess our operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. In this MD&A, we use non-GAAP measures including adjusted net earnings, adjusted diluted EPS, adjusted gross profit, adjusted gross margin, adjusted operating income, adjusted operating margin, adjusted EBITDA, free cash flow, total indebtedness and net indebtedness, net debt leverage ratio, and return on net assets (RONA) to measure our performance and financial condition from one period to the next, which excludes the variation caused by certain adjustments that could potentially distort the analysis of trends in our operating performance, and because we believe such measures provide meaningful information on the Company's financial condition and financial performance.

We refer the reader to section 17.0 entitled "Definition and reconciliation of non-GAAP financial measures" in this MD&A for the definition and complete reconciliation of all non-GAAP measures used and presented by the Company to the most directly comparable IFRS measures.

5.3 Selected annual information

<i>(in \$ millions, except per share amounts or otherwise indicated)</i>	2019	2018	2017	Variation 2019-2018		Variation 2018-2017	
				\$	%	\$	%
Net sales	2,823.9	2,908.6	2,750.8	(84.7)	(2.9)%	157.8	5.7 %
Gross profit	704.5	806.0	801.2	(101.5)	(12.6)%	4.8	0.6 %
Adjusted gross profit ⁽¹⁾	759.5	806.0	801.2	(46.5)	(5.8)%	4.8	0.6 %
SG&A expenses	340.5	364.9	373.6	(24.4)	(6.7)%	(8.7)	(2.3)%
Impairment of trade accounts receivable	27.7	3.6	3.7	24.1	n.m.	(0.1)	(2.7)%
Restructuring and acquisition-related costs	47.3	34.2	22.9	13.1	38.3 %	11.3	49.3 %
Operating income	289.0	403.2	401.0	(114.2)	(28.3)%	2.2	0.5 %
Adjusted operating income ⁽¹⁾	391.3	437.4	423.9	(46.1)	(10.5)%	13.5	3.2 %
Adjusted EBITDA ⁽¹⁾	548.1	595.5	586.1	(47.4)	(8.0)%	9.4	1.6 %
Financial expenses	39.2	31.0	24.2	8.2	26.5 %	6.8	28.1 %
Income tax (recovery) expense	(10.0)	21.4	14.5	(31.4)	n.m.	6.9	47.6 %
Net earnings	259.8	350.8	362.3	(91.0)	(25.9)%	(11.5)	(3.2)%
Adjusted net earnings ⁽¹⁾	339.6	393.1	386.9	(53.5)	(13.6)%	6.2	1.6 %
Basic EPS	1.27	1.66	1.62	(0.39)	(23.5)%	0.04	2.5 %
Diluted EPS	1.27	1.66	1.61	(0.39)	(23.5)%	0.05	3.1 %
Adjusted diluted EPS ⁽¹⁾	1.66	1.86	1.72	(0.20)	(10.8)%	0.14	8.1 %
Gross margin	24.9%	27.7%	29.1%	n/a	(2.8) pp	n/a	(1.4) pp
Adjusted gross margin ⁽¹⁾	26.7%	27.7%	29.1%	n/a	(1.0) pp	n/a	(1.4) pp
SG&A expenses as a percentage of sales	12.1%	12.5%	13.6%	n/a	(0.4) pp	n/a	(1.1) pp
Operating margin	10.2%	13.9%	14.6%	n/a	(3.7) pp	n/a	(0.7) pp
Adjusted operating margin ⁽¹⁾	13.8%	15.0%	15.4%	n/a	(1.2) pp	n/a	(0.4) pp
Total assets	3,211.1	3,004.6	2,980.7	206.5	6.9 %	23.9	0.8 %
Total non-current financial liabilities	845.0	669.0	630.0	176.0	26.3 %	39.0	6.2 %
Net indebtedness ⁽¹⁾	862.4	622.3	577.2	240.1	38.6 %	45.1	7.8 %
Return on net assets (RONA) ⁽¹⁾	13.3%	15.6%	14.9%	n/a	(2.3) pp	n/a	0.7 pp
Annual cash dividends declared per common share	0.536	0.448	0.374	0.088	19.6 %	0.074	19.8 %
Net debt leverage ratio ⁽¹⁾	1.6	1.0	1.0	n/a	n/a	n/a	n/a

n.m. = not meaningful

n/a = not applicable

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

5.3.1 Recent developments

At the end of the fourth quarter of 2019, we decided to significantly reduce our imprintables product line stock-keeping unit (SKUs) count by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands, a major initiative which we had communicated we were considering at the end of the third quarter of 2019. This strategic product line initiative is an important part of our "Back to Basics" strategy, with the goal of simplifying our product portfolio and reducing complexity in our manufacturing and warehouse distribution activities. Consequently, in connection with this initiative, we recorded charges of \$55 million in the fourth quarter of 2019 consisting of inventory write-downs of approximately \$48 million, and a net \$7 million reversal of gross profit relating to anticipated product returns of discontinued SKUs which reduced sales by \$19 million and cost of sales by \$12 million.

5.4 Consolidated operating review

5.4.1 Net sales

<i>(in \$ millions, or otherwise indicated)</i>	2019	2018	2017	Variation 2019-2018		Variation 2018-2017	
				\$	%	\$	%
Activewear	2,261.9	2,321.4	2,043.1	(59.5)	(2.6)%	278.3	13.6 %
Hosiery and underwear ⁽¹⁾	562.0	587.2	707.7	(25.2)	(4.3)%	(120.5)	(17.0)%
Total net sales	2,823.9	2,908.6	2,750.8	(84.7)	(2.9)%	157.8	5.7 %

(1) Also includes intimates and other fringe products.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Fiscal 2019 compared to fiscal 2018

The 2.9% net sales decline for the year ended December 29, 2019 was due to a 2.6% decrease in activewear sales and a 4.3% decline in the hosiery and underwear category compared to last year. Overall sales were in line with our most recent full year guidance calling for a decrease in total net sales in the low-single digit range. The decrease in activewear sales for the year was mainly driven by lower unit sales volumes in the imprintables channel both in North America and internationally, partly offset by higher sales of activewear in the retail channel, including private brands and strong sales in the craft channel, as well as favourable product-mix and higher net selling prices. Sales in the hosiery and underwear category were down \$25.2 million over the prior year, as strong double-digit underwear sales growth driven by our new private brand men's underwear program in mass, which also contributed to a favourable product-mix, was more than offset by lower unit sales of socks, including the impact of the exit of a sock program in the dollar channel.

Fiscal 2018 compared to fiscal 2017

The net sales increase for the year ended December 30, 2018 of \$157.8 million or 5.7% over 2017 reflected a 13.6% increase in activewear sales, partly offset by a 17.0% decline in the hosiery and underwear category. The increase in activewear sales was driven by higher unit sales volume and net selling prices, more favourable product mix, and positive foreign exchange impacts compared to fiscal 2017. Activewear unit volume growth was mainly due to higher shipments of imprintable products in the U.S., including fashion basics and fleece products, combined with strong double-digit unit sales volume growth in international markets and higher unit sales of global lifestyle brand products. The decline in the hosiery and underwear category was mainly due to lower sock volumes in the mass market channel, particularly as a result of the shift to private label brands by mass retailers, as well as declines in licensed and Gold Toe® brand sales. Favourable product-mix was driven by higher sales of fleece and fashion basics and higher value sock sales.

5.4.2 Gross profit and adjusted gross profit

<i>(in \$ millions, or otherwise indicated)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
Gross profit	704.5	806.0	801.2	(101.5)	4.8
Adjustment for:					
Impact of strategic product line initiative	55.0	—	—	55.0	—
Adjusted gross profit⁽¹⁾	759.5	806.0	801.2	(46.5)	4.8
Gross margin	24.9%	27.7%	29.1%	(2.8) pp	(1.4) pp
Adjusted gross margin⁽¹⁾	26.7%	27.7%	29.1%	(1.0) pp	(1.4) pp

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Gross profit is the result of our net sales less cost of sales. Gross margin reflects gross profit as a percentage of sales. Our cost of sales includes all raw material costs, manufacturing conversion costs, including manufacturing depreciation expense, sourcing costs, inbound freight and inter-facility transportation costs, and outbound freight to customers. Cost of sales also includes the costs of purchased finished goods, costs relating to purchasing, receiving and inspection activities, manufacturing administration, third-party manufacturing services, sales-based royalty costs, insurance, inventory write-downs, and customs and duties. Our reporting of gross profit and gross margin may not be comparable to these metrics as reported by other companies, since some entities include warehousing and handling costs and/or exclude depreciation expense, outbound freight to customers, and royalty costs from cost of sales.

Fiscal 2019 compared to fiscal 2018

The 280-basis point decrease in gross margin in fiscal 2019 over the prior year was mainly due to charges taken in connection with the Company's strategic product line initiative as described under Section 5.3.1 "Recent Developments". Excluding these charges, adjusted gross margin for 2019 was 26.7%, down 100 basis points from the same period last year, mainly due to higher manufacturing costs, including higher raw material costs and inflationary pressures on other input costs, as well as unfavourable foreign exchange, which more than offset the benefit of higher net selling prices and more favourable product-mix.

Fiscal 2018 compared to fiscal 2017

The 140-basis point decline in gross margin in fiscal 2018 over fiscal 2017 was mainly due to higher raw material and other input costs, as well as higher manufacturing costs primarily related to disruptions in our supply chain which occurred earlier in 2018, and costs related to the ramp up of activewear capacity, partly offset by higher net selling prices and the benefit of a richer product-mix compared to 2017.

5.4.3 Selling, general and administrative expenses

<i>(in \$ millions, or otherwise indicated)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
SG&A expenses	340.5	364.9	373.6	(24.4)	(8.7)
SG&A expenses as a percentage of sales	12.1%	12.5%	13.6%	(0.4) pp	(1.1) pp

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Fiscal 2019 compared to fiscal 2018

The \$24.4 million decrease in selling, general and administrative (SG&A) expenses for fiscal 2019 and the 40-basis point improvement in SG&A as a percentage of sales compared to fiscal 2018 was primarily due to lower compensation expenses and the Company's continued focus on SG&A cost containment, including benefits stemming from distribution network consolidation. The Company's guidance for fiscal 2019 called for improvement in SG&A expenses as a percentage of sales.

Fiscal 2018 compared to fiscal 2017

The \$8.7 million decline in SG&A expenses and the 110-basis point improvement in SG&A as a percentage of sales in fiscal 2018 were mainly due to the benefit of cost reductions resulting from our organizational realignment which we began to implement at the start of fiscal 2018. We generated cost reductions from the consolidation of marketing, sales, distribution, and administrative functions which more than offset investments related to e-commerce and distribution capabilities made in the first half of 2018.

5.4.4 Impairment of trade accounts receivable

Impairment of trade accounts receivable was \$27.7 million in fiscal 2019 (2018 - \$3.6 million, 2017 - \$3.7 million) relating primarily to the aggregate impact of approximately \$24 million from the receivership and liquidation of one of the Company's U.S. distributor customers and the bankruptcy of a retail customer.

5.4.5 Restructuring and acquisition-related costs

<i>(in \$ millions)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
Employee termination and benefit costs	17.1	7.8	4.0	9.3	3.8
Exit, relocation and other costs	17.2	13.6	13.8	3.6	(0.2)
Net loss on disposal and write-downs of property, plant and equipment, right-of-use assets, and software related to exit activities	13.1	12.4	0.9	0.7	11.5
Acquisition-related transaction costs	—	0.4	4.2	(0.4)	(3.8)
Restructuring and acquisition-related costs	47.4	34.2	22.9	13.2	11.3

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Restructuring and acquisition-related costs are comprised of costs directly related to significant exit activities, including the closure of business locations or the relocation of business activities, significant changes in management structure, as well as transaction, exit, and integration costs incurred pursuant to business acquisitions.

Restructuring and acquisition-related costs in fiscal 2019 related to the following: \$14.2 million for the closure of textile manufacturing and sewing operations in Mexico; \$7.3 million for the consolidation of sewing activities in Honduras; \$7.0 million for the closure of a hosiery manufacturing plant in Canada; \$9.9 million for the exit of yarn-recycling activities (planned disposal of yarn recycling equipment) and the closure of a yarn-spinning plant in the U.S.; \$4.8 million for the exit of ship-to-the-piece activities; and \$4.1 million to complete restructuring activities that were initiated in fiscal 2018, including the closure of the AKH textile manufacturing facility and the consolidation of U.S. distribution centres.

Restructuring and acquisition-related costs for fiscal 2019 were in line with the Company's most recent guidance of after-tax restructuring and acquisition-related costs of approximately \$45 million.

Restructuring and acquisition-related costs in fiscal 2018 related primarily to the following: \$9.0 million for the closure of the AKH textile manufacturing facility which was acquired as part of the Anvil acquisition; \$9.0 million for the consolidation of the Company's U.S. distribution centres pursuant to prior years' business acquisitions (net of a gain on disposal of \$1.2 million and the \$5.0 million reversal of an environmental liability for a distribution facility sold in fiscal 2018); \$7.3 million for the Company's internal organizational realignment; \$5.5 million for the consolidation of sock production manufacturing; and \$3.4 million in other costs, including the consolidation of garment dyeing operations acquired in the Comfort Colors acquisition and information systems integration for prior year acquisitions.

Restructuring and acquisition-related costs in fiscal 2017 related primarily to the following: \$7.9 million of transaction and integration costs for the American Apparel business acquisition; \$6.2 million for the rationalization of the Company's remaining retail store outlets from the acquisition of Gold Toe; \$4.4 million for the integration of prior years' business acquisitions, primarily for the integration of Alstyle and Peds; \$2.7 million for the consolidation of the Company's West Coast distribution centres pursuant to the acquisitions of American Apparel and Alstyle; and \$1.7 million for the Company's internal organizational realignment.

5.4.6 Operating income and adjusted operating income

<i>(in \$ millions, or otherwise indicated)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
Operating income	289.0	403.2	401.0	(114.2)	2.2
Adjustment for:					
Restructuring and acquisition-related costs	47.3	34.2	22.9	13.1	11.3
Impact of strategic product line initiative	55.0	—	—	55.0	—
Adjusted operating income ⁽¹⁾	391.3	437.4	423.9	(46.1)	13.5
Operating margin	10.2%	13.9%	14.6%	(3.7) pp	(0.7) pp
Adjusted operating margin ⁽¹⁾	13.8%	15.0%	15.4%	(1.2) pp	(0.4) pp

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Fiscal 2019 compared to fiscal 2018

The \$114.2 million decrease in operating income for fiscal 2019 was primarily due to the impact of lower net sales, lower gross margins, the \$24 million increase in impairment of trade accounts receivable, as well as higher restructuring and acquisition-related costs associated with the Company's manufacturing and warehouse consolidation initiatives, offset in part by lower SG&A expenses. The \$46.1 million decrease in adjusted operating income was due to the same factors excluding restructuring and acquisition-related costs. The decline in operating margins and adjusted operating margin in fiscal 2019 was mainly due to lower gross margin and adjusted gross margin, as well as the higher trade receivable impairment charges in fiscal 2019.

Fiscal 2018 compared to fiscal 2017

The increase in operating income in fiscal 2018 compared to fiscal 2017 reflected the increase in sales and lower SG&A expenses driven by cost reductions primarily associated with the Company's organizational consolidation, which more than offset lower gross profit and higher restructuring and acquisition-related costs. The slight decline in operating margins was due to the gross margin decline which more than offset the benefit of lower SG&A expenses as a percentage of sales.

5.4.7 Financial expenses, net

<i>(in \$ millions)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
Interest expense on financial liabilities recorded at amortized cost	28.7	24.8	17.1	3.9	7.7
Bank and other financial charges	8.0	7.5	8.0	0.5	(0.5)
Interest accretion on lease obligation	3.1	—	—	3.1	—
Interest accretion on discounted provisions	0.3	0.3	0.3	—	—
Foreign exchange gain	(0.9)	(1.5)	(1.3)	0.6	(0.2)
Financial expenses, net	39.2	31.1	24.1	8.1	7.0

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Fiscal 2019 compared to fiscal 2018

The increase in net financial expenses in fiscal 2019 compared to fiscal 2018 was mainly due to higher interest expense as a result of a slightly higher effective interest rates on our long-term debt bearing interest at variable rates, higher average borrowing levels, and the impact of interest accretion on discounted lease obligations recorded as a result of the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the year ended December 29, 2019. Foreign exchange gains for fiscal 2019 and fiscal 2018 relate primarily to the revaluation of net monetary assets denominated in foreign currencies.

Fiscal 2018 compared to fiscal 2017

The increase in net financial expenses in fiscal 2018 compared to fiscal 2017 was mainly due to higher interest expense as a result of higher effective interest rates on our long-term debt bearing interest at variable rates as a result of higher U.S. short-term interest rates, and higher average borrowing levels. Foreign exchange gains for fiscal 2018 and fiscal 2017 relate primarily to the revaluation of net monetary assets denominated in foreign currencies.

5.4.8 Income taxes

The Company's average effective tax rate is calculated as follows:

<i>(in \$ millions, or otherwise indicated)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
Earnings before income taxes	249.8	372.1	376.8	(122.3)	(4.7)
Income tax (recovery) expense	(10.0)	21.4	14.5	(31.4)	6.9
Average effective income tax rate	n.m.	5.8%	3.8%	n.m	2.0 pp

n.m. = not meaningful

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Fiscal 2019 compared to fiscal 2018

The income tax recovery of \$10.0 million in fiscal 2019 compared to an income tax expense of \$21.4 million in fiscal 2018 was mainly due to deferred tax adjustments in both years as well as recoveries related to restructuring and acquisition-related costs. In fiscal 2019, the Company reassessed the recoverability of its deferred income tax assets in the U.S., resulting in a recovery of \$19.2 million from the re-recognition of previously de-recognized deferred income tax assets that we expect to recover. The fiscal 2018 income tax expense included a \$6.1 million deferred tax expense for a portion of the same deferred tax assets that were no longer probable of being realized at that time, and \$2.0 million for the revaluation of deferred income tax assets and liabilities due to changes in statutory income tax rates primarily to reflect the impact of the changes in the U.S. statutory federal corporate income tax rate that took effect at the beginning of 2018. Tax recoveries related to restructuring and acquisition-related costs and the charges for the strategic product line initiative were \$3.3 million in fiscal 2019, compared to tax recoveries of \$0.1 million in fiscal 2018. Excluding the impact of the aforementioned adjustments to deferred income tax expense in both years, and excluding the impact of restructuring and acquisition-related costs and the charges for the strategic product line initiative, the average effective income tax rate for fiscal 2019 was 3.5% as compared to 3.3% in fiscal 2018, and slightly lower than the anticipated full year tax rate of approximately 4%.

Fiscal 2018 compared to fiscal 2017

The higher income tax expense and average effective tax rate in fiscal 2018 compared to fiscal 2017 was mainly due to an increase in deferred income tax expense adjustments relating to the Company's internal organizational realignment and the impact of income tax rate changes. In fiscal 2018, pursuant to additional phases to the internal organizational realignment,

the Company reassessed the recoverability of its deferred income tax assets in the respective jurisdictions affected, resulting in an increase in deferred tax expense of \$6.1 million for assets that were no longer probable of being realized. In fiscal 2017, the initiation of the internal organizational realignment plan resulted in an increase to deferred income tax expense of \$3.3 million. The fiscal 2018 deferred income tax expense also included \$2.0 million for the revaluation of deferred income tax assets and liabilities due to changes in statutory income tax rates, compared to a deferred income tax recovery of \$1.6 million in fiscal 2017 for tax rate changes, primarily to reflect the impact of the changes in the U.S. statutory federal corporate income tax rate that took effect at the beginning of 2018. Excluding the impact of the aforementioned adjustments to deferred income tax expense in both years, and excluding the impact of restructuring and acquisition-related costs described in subsection 5.4.5 of this MD&A, the average effective income tax rate for both years was approximately 3.3%.

5.4.9 Net earnings, adjusted net earnings, earnings per share measures, and other performance measures

<i>(in \$ millions, except per share amounts)</i>	2019	2018	2017	Variation 2019-2018	Variation 2018-2017
Net earnings	259.8	350.8	362.3	(91.0)	(11.5)
Adjustments for:					
Restructuring and acquisition-related costs	47.3	34.2	22.9	13.1	11.3
Impact of strategic product line initiative ⁽¹⁾	55.0	—	—	55.0	—
Income tax (recovery) expense relating to the above-noted adjustments	(3.3)	—	3.3	(3.3)	(3.3)
Income tax (recovery) expense related to the revaluation of deferred income tax assets and liabilities ⁽²⁾	(19.2)	8.1	(1.6)	(27.3)	9.7
Adjusted net earnings ⁽³⁾	339.6	393.1	386.9	(53.5)	6.2
Basic EPS	1.27	1.66	1.62	(0.39)	0.04
Diluted EPS	1.27	1.66	1.61	(0.39)	0.05
Adjusted diluted EPS ⁽³⁾	1.66	1.86	1.72	(0.20)	0.14

(1) Includes \$47.6 million of inventory write-downs included in cost of sales and the \$7.4 million gross profit impact of a sales return allowance for anticipated product returns related to discontinued SKUs (which reduced net sales by \$19.0 million and cost of sales by \$11.6 million).

(2) For fiscal 2019, the amount includes an income tax recovery of \$19.2 million pursuant to the recognition of previously de-recognized (in fiscal 2018 and fiscal 2017 pursuant to the organizational realignment plan) deferred income tax assets as a result of a re-assessment of the probability of realization of such deferred income tax assets. For fiscal 2018, the amount includes an increase to deferred income tax expense of \$6.1 million pursuant to the Company's organizational realignment plan in which it reassessed the recoverability of its deferred income tax assets in the respective jurisdictions affected, and an increase to deferred income tax expense of \$2.0 million related to the impact of statutory income tax rate changes primarily related to the impact of U.S. tax reform, reflecting the reduction in the U.S. statutory federal tax rate that took effect in fiscal 2018.

(3) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Fiscal 2019 compared to fiscal 2018

The decline in net earnings and diluted EPS for 2019 was due to the lower operating income and higher financial expenses, partly offset by lower income taxes resulting from the tax recoveries described in subsection 5.4.8 entitled "Income taxes" in this MD&A. Adjusted net earnings for 2019 were \$339.6 million or \$1.66 per diluted share, within the Company's adjusted diluted EPS guidance range of \$1.65 to \$1.70, and down 13.6% and 10.8%, respectively, compared to 2018 due to the decrease in adjusted operating income and higher financial expenses. The declines in diluted EPS and adjusted diluted EPS were partially offset by the benefit of a lower year-over-year share count from Company repurchases of shares under its share repurchase program. Adjusted EBITDA for the year totaled \$548.1 million and was within the Company's most recent guidance range of \$545 to \$555 million.

Fiscal 2018 compared to fiscal 2017

Net earnings for 2018 were slightly down compared to fiscal 2017 due to the decline in operating margin and higher financial expenses and income taxes, which more than offset the contribution of higher sales. The increase in adjusted net earnings in fiscal 2018 was mainly due to the contribution of higher sales, which more than offset the decline in adjusted operating margin and higher financial expenses. On a diluted per share basis, net earnings and adjusted net earnings for fiscal 2018 were up over fiscal 2017, including the benefit of a lower share count.

5.5 Summary of quarterly results

The table below sets forth certain summarized unaudited quarterly financial data for the eight most recently completed quarters. This quarterly information has been prepared in accordance with IFRS. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period.

For the three months ended (in \$ millions, except share and per share amounts or otherwise indicated)	Dec 29, 2019	Sep 29, 2019	Jun 30, 2019	Mar 31, 2019	Dec 30, 2018	Sep 30, 2018	Jul 1, 2018	Apr 1, 2018
Net sales	658.7	739.7	801.6	623.9	742.7	754.4	764.2	647.3
Net earnings	32.5	104.9	99.7	22.7	59.6	114.3	109.0	67.9
Net earnings per share								
Basic ⁽¹⁾	0.16	0.51	0.49	0.11	0.29	0.55	0.51	0.31
Diluted ⁽¹⁾	0.16	0.51	0.49	0.11	0.29	0.55	0.51	0.31
Weighted average number of shares outstanding (in '000s)								
Basic	201,407	203,684	204,960	206,595	206,796	207,926	212,477	218,541
Diluted	201,593	204,263	205,520	207,057	207,122	208,161	212,722	218,850

(1) Quarterly EPS may not add to year-to-date EPS due to rounding.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

5.5.1 Seasonality and other factors affecting the variability of results and financial condition

Our results of operations for interim and annual periods are impacted by the variability of certain factors, including, but not limited to, changes in end-use demand and customer demand, our customers' decision to increase or decrease their inventory levels, changes in our sales mix, and fluctuations in selling prices and raw material costs. While our products are sold on a year-round basis, our business experiences seasonal changes in demand which result in quarterly fluctuations in operating results. Although certain products have seasonal peak periods of demand, competitive dynamics may influence the timing of customer purchases causing seasonal trends to vary somewhat from year to year. Historically, demand for T-shirts is lowest in the fourth quarter and highest in the second quarter of the year, when distributors purchase inventory for the peak summer selling season. Demand for fleece is typically highest in advance of the fall and winter seasons, in the second and third quarters of the year. Sales of hosiery and underwear are higher during the second half of the year, during the back-to-school period and the Christmas holiday selling season. These seasonal sales trends of our business also result in fluctuations in our inventory levels throughout the year.

Our results are also impacted by fluctuations in the price of raw materials and other input costs. Cotton and polyester fibres are the primary raw materials used in the manufacture of our products, and we also use chemicals, dyestuffs, and trims, which we purchase from a variety of suppliers. Cotton prices are affected by consumer demand, global supply, which may be impacted by weather conditions in any given year, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries, and other factors that are generally unpredictable. While we enter into purchase contracts and derivative financial instruments in advance of delivery to establish firm prices for the cotton component of our yarn requirements, our realized cotton costs can fluctuate significantly between interim and annual reporting periods. Energy costs in our results of operations are also affected by fluctuations in crude oil, natural gas, and petroleum prices, which can also influence transportation costs and the cost of related items used in our business, such as polyester fibres, chemicals, dyestuffs, and trims. Changes in raw material costs are initially reflected in the cost of inventory and only impact net earnings when the respective inventories are sold.

Business acquisitions may affect the comparability of results. There have not been any significant business acquisitions during the last eight quarters. In addition, management decisions to consolidate or reorganize operations, including the closure of facilities, may result in significant restructuring costs in an interim or annual period. Subsection 5.4.5 entitled "Restructuring and acquisition-related costs" in this MD&A contains a discussion of costs related to the Company's restructuring actions and business acquisitions. The effect of asset write-downs, including allowances for expected credit losses, provisions for discontinued inventories, and impairments of long-lived assets can also affect the variability of our results. Subsection 5.3.1 entitled "Recent developments" in this MD&A describes the Company's strategic initiative to significantly reduce its imprintable product line SKU count which resulted in \$55 million of charges that affected net earnings in the fourth quarter of fiscal 2019. Subsection 5.4.4 entitled "Impairment of trade accounts receivable" in this MD&A contains a discussion of allowances for expected credit losses, including a \$24 million increase in the impairment of trade accounts receivable that was recorded in the first quarter of fiscal 2019.

Our reported amounts for net sales, cost of sales, SG&A expenses, and financial expenses/income are impacted by fluctuations in certain foreign currencies versus the U.S. dollar as described in section 11 entitled "Financial risk management" in this annual MD&A. The Company periodically uses derivative financial instruments to manage risks related to fluctuations in foreign exchange rates.

5.6 Fourth quarter operating results

For the three months ended <i>(in \$ millions, except per share amounts or otherwise indicated)</i>	December 29, 2019	December 30, 2018	Variation \$	Variation %
Net sales	658.7	742.7	(84.0)	(11.3)%
Gross profit	118.2	195.4	(77.2)	(39.5)%
Adjusted gross profit ⁽¹⁾	173.2	195.4	(22.2)	(11.4)%
SG&A expenses	76.5	91.9	(15.4)	(16.8)%
Impairment of trade accounts receivable	1.4	3.6	(2.2)	(61.1)%
Restructuring and acquisition-related costs	16.0	21.7	(5.7)	(26.3)%
Operating income	24.3	78.2	(53.9)	(68.9)%
Adjusted operating income ⁽¹⁾	95.3	99.9	(4.6)	(4.6)%
Adjusted EBITDA ⁽¹⁾	128.2	138.0	(9.8)	(7.1)%
Financial expenses	9.5	8.7	0.8	9.2 %
Income tax (recovery) expense	(17.8)	10.0	(27.8)	n.m.
Net earnings	32.5	59.6	(27.1)	(45.5)%
Adjusted net earnings ⁽¹⁾	83.4	88.9	(5.5)	(6.2)%
Basic EPS	0.16	0.29	(0.13)	(44.8)%
Diluted EPS	0.16	0.29	(0.13)	(44.8)%
Adjusted diluted EPS ⁽¹⁾	0.41	0.43	(0.02)	(4.7)%
Gross margin	17.9%	26.3%	n/a	(8.4) pp
Adjusted gross margin ⁽¹⁾	25.6%	26.3%	n/a	(0.7) pp
SG&A expenses as a percentage of sales	11.6%	12.4%	n/a	(0.8) pp
Operating margin	3.7%	10.5%	n/a	(6.8) pp
Adjusted operating margin ⁽¹⁾	14.1%	13.5%	n/a	0.6 pp

n.m. = not meaningful

n/a - not applicable

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Net sales for the fourth quarter ended December 29, 2019 of \$658.7 million were down 11.3% compared to the fourth quarter of 2018 due primarily to a 15.1% decline in activewear sales, slightly offset by a 1.0% sales increase in the hosiery and underwear category. The decline in overall net sales in the quarter was mainly the result of lower unit sales volumes and the negative impact of the sales return allowance of \$19 million recorded in the fourth quarter. Before accounting for the sales return allowance, total net sales in the fourth quarter were essentially in line with our expectations as the positive benefit on sales from lower than anticipated levels of U.S. distributor inventory de-stocking of imprintables was offset by the negative impact of weaker than expected market demand in retail, particularly in hosiery.

In activewear, we generated sales of \$483.5 million in the fourth quarter, down \$85.8 million compared to the same quarter in the prior year, due primarily to lower unit sales volumes stemming from the combined impact of lower POS from distributors to screenprinters and distributor inventory de-stocking, as well as the impact of the sales return allowance. The sales volume decline was mainly due to lower imprintable volumes in North America, partly offset by higher activewear sales in retail and modest growth in international shipments of imprintable activewear. Sales in the hosiery and underwear category for the fourth quarter totaled \$175.1 million, up \$1.7 million over the fourth quarter in 2018, as strong double-digit sales volume growth of underwear, which also drove more favourable product-mix, was largely offset by lower socks sales. While industry demand for men's underwear was down in the quarter, as reported by NPD Retail Tracking service, our underwear sales were strong. The large increase in underwear sales was due to our new private label men's underwear program with our largest mass retail customer, which rolled out earlier this year and gained additional shelf space during the fourth quarter as

the program offering was expanded. The decline in sock sales during the quarter reflected overall weaker industry demand and stemmed mainly from declines in mass and other channels, including the exit of a sock program in the dollar channel.

Our reported gross margin in the fourth quarter was 17.9% compared to gross margin of 26.3% in the fourth quarter last year. Excluding the \$55 million charge related to our Back to Basics strategy, adjusted gross margin was 25.6% compared to 26.3% last year, down 70 basis points. The decline was largely due to higher royalty expense in the quarter related to licensed brand sock sales, which impacted adjusted gross margin by approximately 50 basis points, as well as higher manufacturing input costs. The negative impact of these factors more than offset the benefit of cost savings from the Company's manufacturing optimization initiatives and favourable product-mix from higher-margin underwear sales.

SG&A expenses for the fourth quarter of 2019 of \$76.5 million were down 16.8% compared to \$91.9 million in the fourth quarter of 2018. As a percentage of sales, SG&A expenses were 11.6%, down 80 basis points from 12.4% in the fourth quarter last year. The improvement was mainly attributable to lower compensation expenses and cost benefits from the Company's ongoing focus on SG&A rationalization.

Operating income for the fourth quarter of 2019 totaled \$24.3 million, or 3.7% of sales, down from \$78.2 million, or 10.5% of sales, in the fourth quarter of 2018. After excluding restructuring and acquisition-related costs and the \$55 million charge related to our strategic product line initiative, adjusted operating income for the quarter amounted to \$95.3 million, down from \$99.9 million in the fourth quarter last year. Adjusted operating income was 14.1% of sales, compared to adjusted operating margin of 13.5% last year. The 60 basis-point improvement was mainly driven by the decline in SG&A expenses, partly offset by lower adjusted gross margin.

We incurred \$16.0 million of restructuring and acquisition-related costs in the fourth quarter and \$47.3 million for the full year of 2019. These costs primarily related to previously announced manufacturing optimization initiatives, in connection with the consolidation of textile, hosiery, sewing and yarn operations, including estimated costs related to the decision we made at the end of October 2019 to relocate our Mexican operations to Central America and the Caribbean Basin, as well as other consolidation initiatives related to sales and marketing activities.

We reported an income tax recovery for the quarter of \$17.8 million compared to an income tax expense of \$10.0 million in the fourth quarter of 2018. The \$27.8 million reduction in income tax expense compared to last year was mainly due to deferred tax adjustments in both periods. Specifically, we recognized a deferred income tax recovery of \$19.2 million in the fourth quarter of 2019 related to the recognition of previously de-recognized deferred income tax assets, while the tax expense for the fourth quarter of 2018 included a deferred income tax charge of \$7.1 million relating to the de-recognition of a portion of the same deferred tax assets.

Net earnings totaled \$32.5 million or \$0.16 per share on a diluted basis for the three months ended December 29, 2019, compared with net earnings of \$59.6 million, or \$0.29 per share on a diluted basis, for the three months ended December 30, 2018. Adjusted net earnings totaled \$83.4 million, or \$0.41 per share on a diluted basis, in the quarter, down from adjusted net earnings of \$88.9 million, or \$0.43 per share on a diluted basis, in the fourth quarter last year. The decline in net earnings and diluted EPS was mainly due to lower sales, and a lower operating margin including the impact of the product line initiative charge, partly offset lower income taxes. The 4.7% decline in adjusted diluted EPS was mainly due to lower sales in the quarter and the decrease in adjusted gross margin, partly offset by lower SG&A expenses.

6.0 FINANCIAL CONDITION

6.1 Current assets and current liabilities

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018	Variation
Cash and cash equivalents	64.1	46.7	17.4
Trade accounts receivable	320.9	317.2	3.7
Income taxes receivable	—	1.7	(1.7)
Inventories	1,052.1	940.0	112.1
Prepaid expenses, deposits and other current assets	77.1	77.4	(0.3)
Accounts payable and accrued liabilities	(406.6)	(347.0)	(59.6)
Current portion of lease obligations	(14.5)	—	(14.5)
Income taxes payable	(1.3)	—	(1.3)
Total working capital	1,091.8	1,036.0	55.8

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- The slight increase in trade accounts receivable (which are net of accrued sales discounts and other allowances) was due to the impact of higher days sales outstanding (DSO), which was mainly due to longer payment terms, partially offset by the impact of lower sales in the fourth quarter of fiscal 2019 compared to the fourth quarter of fiscal 2018, and higher accrued sales allowances. The higher DSO is net of the impact of a \$24 million increase in the amount of trade accounts receivables sold to a financial institution under a receivables purchase agreement as disclosed in note 6 of the audited consolidated financial statements for the year ended December 29, 2019.
- The increase in inventories was mainly due to an increase in unit volumes, partially offset by the write-down of inventory resulting from the Company's decision in the fourth quarter of fiscal 2019 to move forward with the strategic product line initiative described under subsection 5.3.1 "Recent developments" in this MD&A. The increase in inventory unit volumes resulted from a decision to increase activewear inventory levels to more optimal levels, as well as the impact of lower than expected sales in the second half of fiscal 2019.
- The increase in accounts payable and accrued liabilities was mainly due to higher days payable outstanding, including the benefit of the new supply-chain financing program partially implemented at the end of the fourth quarter of fiscal 2018, and higher payables related to capital expenditures, including an \$8 million holdback for the purchase of land in Bangladesh, partially offset by lower accruals for variable compensation.
- The current portion of lease obligations results from the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements for the fiscal year ended December 29, 2019.
- Working capital was \$1,091.8 million as at December 29, 2019, compared to \$1,036.0 million as at December 30, 2018. The current ratio at the end of fiscal 2019 was 3.6, compared to 4.0 at the end of fiscal 2018.

6.2 Property, plant and equipment, right-of-use assets, intangible assets, and goodwill

<i>(in \$ millions)</i>	Property, plant and equipment	Right-of-use assets	Intangible assets	Goodwill
Balance, December 30, 2018	990.5	—	393.6	227.4
Initial adoption of IFRS 16	—	78.1	—	—
Net capital additions	142.9	10.3	14.2	0.5
Depreciation and amortization	(117.9)	(13.3)	(22.5)	—
Disposals	(10.9)	(1.6)	(0.1)	—
Write-downs and impairments	(9.6)	—	(1.3)	—
Balance, December 29, 2019	995.0	73.5	383.9	227.9

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- Additions to property, plant and equipment were primarily for the acquisition of land in Bangladesh, the acquisition of a yarn-spinning facility and equipment in North Carolina, and expenditures related to manufacturing capacity expansion initiatives. Disposals and write-downs and impairments related to the closure of facilities as described in subsection 5.4.5 entitled "Restructuring and acquisition-related costs" in this MD&A.
- Right-of-use assets reflect the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements for the fiscal year ended December 29, 2019.
- Intangible assets are comprised of customer contracts and relationships, trademarks, license agreements, non-compete agreements, and computer software. The decrease in intangible assets reflects amortization of \$22.5 million, partially offset by additions of \$14.2 million primarily for computer software.

6.3 Other non-current assets and non-current liabilities

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018	Variation
Deferred income tax assets	9.9	—	9.9
Other non-current assets	6.7	10.3	(3.6)
Long-term debt	(845.0)	(669.0)	(176.0)
Lease obligations	(67.0)	—	(67.0)
Deferred income tax liabilities	—	(12.6)	12.6
Other non-current liabilities	(42.2)	(39.9)	(2.3)

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- See section 8.0 entitled "Liquidity and capital resources" in this MD&A for the discussion on long-term debt.
- The combined increase in deferred tax assets and decrease in deferred income tax liabilities mainly results from the recognition of \$19.2 million of previously de-recognized deferred income tax assets in fiscal 2019, as described in subsection 5.4.8 entitled "Income taxes" in this MD&A.
- Lease obligations result from the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements for the fiscal year ended December 29, 2019.
- Other non-current liabilities include provisions and employee benefit obligations. The decrease results mainly from a reduction in provisions for onerous leases as part of the initial adoption of IFRS 16, partially offset by statutory severance benefits earned by employees primarily located in the Caribbean Basin and Central America during fiscal 2019.

7.0 CASH FLOWS

7.1 Cash flows from (used in) operating activities

<i>(in \$ millions)</i>	2019	2018	Variation
Net earnings	259.8	350.8	(91.0)
Adjustments to reconcile net earnings to cash flows from operating activities ⁽¹⁾	175.5	202.3	(26.8)
Changes in non-cash working capital balances	(74.3)	(14.5)	(59.8)
Cash flows from operating activities	361.0	538.6	(177.6)

(1) Includes \$156.8 million (2018 - \$158.1 million) related to depreciation and amortization.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- The year-over-year decrease in operating cash flows of \$177.6 million was mainly due to lower net earnings and a higher increase in non-cash working capital in fiscal 2019 compared to the prior year as explained below.
- Non-cash working capital increased by \$74.3 million during fiscal 2019, compared to an increase of \$14.5 million during fiscal 2018, mainly due to an increase in inventory during fiscal 2019 compared to a slight decrease in fiscal 2018, as well as lower increases in accounts payable and accrued liabilities, partially offset by lower increases in trade accounts receivable in fiscal 2019 compared to fiscal 2018. The reduction in non-cash working capital includes the benefits of various arrangements with customers, suppliers, and financial institutions that the Company has entered into including the receivables purchase agreement, supply-chain financing arrangements (reverse factoring), and other early payment arrangements. As a result of the adoption of IFRS 16, Leases, beginning in fiscal 2019, payments of lease obligations of \$13.5 million, which were previously classified as operating activities in the consolidated statement of cash flows, are now classified as financing activities.

7.2 Cash flows from (used in) investing activities

<i>(in \$ millions)</i>	2019	2018	Variation
Purchase of property, plant and equipment	(128.7)	(107.7)	(21.0)
Purchase of intangible assets	(11.6)	(17.6)	6.0
Business acquisitions	(1.3)	(1.3)	—
Proceeds on disposal of property, plant and equipment	5.8	15.6	(9.8)
Cash flows used in investing activities	(135.8)	(111.0)	(24.8)

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- Cash used in investing activities during fiscal 2019 was higher compared to fiscal 2018 mainly due to higher capital spending in fiscal 2019, including the purchase of land in Bangladesh.
- Capital expenditures during fiscal 2019 are described in section 6.2 of this MD&A, and our projected capital expenditures for the next fiscal year are discussed in section 8.0 entitled "Liquidity and capital resources" in this MD&A.

7.3 Free cash flow

<i>(in \$ millions)</i>	2019	2018	Variation
Cash flows from operating activities	361.0	538.5	(177.5)
Cash flows used in investing activities	(135.8)	(110.9)	(24.9)
Adjustment for:			
Business acquisitions	1.3	1.3	—
Free cash flow⁽¹⁾	226.5	428.9	(202.4)

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- For fiscal 2019, the year-over-year decrease in free cash flow of \$202.4 million was mainly due to the decrease in operating cash flows and increased capital spending, as noted above.
- Free cash flow for fiscal 2019 was in line with the Company's most recent guidance range of \$200 to \$250 million.

7.4 Cash flows from (used in) financing activities

<i>(in \$ millions)</i>	2019	2018	Variation
Increase in amounts drawn under revolving long-term bank credit facilities	176.0	39.0	137.0
Payment of lease obligations	(13.5)	—	(13.5)
Dividends paid	(110.3)	(94.6)	(15.7)
Proceeds from the issuance of shares	10.3	3.2	7.1
Repurchase and cancellation of shares	(257.2)	(367.5)	110.3
Share repurchases for settlement of non-Treasury RSUs	(7.0)	(7.2)	0.2
Withholding taxes paid pursuant to the settlement of non-Treasury RSUs	(6.0)	(6.1)	0.1
Cash flows used in financing activities	(207.7)	(433.2)	225.5

Certain minor rounding variances exist between the consolidated financial statements and this summary.

- Cash flows used in financing activities during fiscal 2019 and 2018 mainly reflected the repurchase and cancellation of common shares under NCIB programs as discussed in section 8.5 of this MD&A, and the payments of dividends, less cash inflows from funds drawn on our long-term bank credit facilities. As a result of the adoption of IFRS 16, Leases, beginning in fiscal 2019, payments of lease obligations are classified as financing activities in the consolidated statement of cash flows. Payments of lease obligations were previously classified as operating activities in the consolidated statement of cash flows.
- The Company paid \$110.3 million of dividends during fiscal 2019 compared to \$94.6 million of dividends during fiscal 2018. The year-over-year increase is due to the 20% increase in the amount of the quarterly dividend approved by the Board of Directors on February 20, 2019, partially offset by the impact of lower common shares outstanding as a result of the repurchase and cancellation of common shares executed since fiscal 2018 under NCIB programs.

8.0 LIQUIDITY AND CAPITAL RESOURCES

8.1 Capital allocation framework

Our primary uses of funds are for working capital requirements, capital expenditures, business acquisitions, and payment of dividends. We have also used funds for the repurchase of shares. We fund our requirements with cash generated from operations and with funds drawn from our long-term debt facilities. We have established a capital allocation framework intended to enhance sales and earnings growth as well as shareholder returns. After funding working capital needs, our first priority of cash use is to fund our organic growth with the required capital investments. Beyond these requirements, we intend to use our free cash flow and debt financing capacity to support our current dividend, and then seek to complete complementary strategic acquisitions which meet our criteria. In addition, when appropriate, we intend to use excess cash to repurchase shares under normal course issuer bid programs. The Company has set a fiscal year end net debt leverage target ratio of one to two times pro-forma adjusted EBITDA, which it believes will provide an efficient capital structure and a framework within which it can execute on its capital allocation priorities.

8.2 Long-term debt and net indebtedness

The Company's long-term debt as at December 29, 2019 is described below.

<i>(in \$ millions, or otherwise indicated)</i>	Effective interest rate ⁽¹⁾	Principal amount		Maturity date
		December 29, 2019	December 30, 2018	
Revolving long-term bank credit facility, interest at variable U.S. LIBOR-based interest rate plus a spread ranging from 1% to 2% ⁽²⁾	3.5%	245	69	April 2024
Term loan, interest at variable U.S. LIBOR-based interest rate plus a spread ranging from 1% to 2%, payable monthly ⁽³⁾	2.9%	300	300	April 2024
Notes payable, interest at fixed rate of 2.70%, payable semi-annually ⁽⁴⁾	2.7%	100	100	August 2023
Notes payable, interest at variable U.S. LIBOR-based interest rate plus a spread of 1.53% payable quarterly ⁽⁴⁾	2.7%	50	50	August 2023
Notes payable, interest at fixed rate of 2.91%, payable semi-annually ⁽⁴⁾	2.9%	100	100	August 2026
Notes payable, interest at variable U.S. LIBOR-based interest rate plus a spread of 1.57% payable quarterly ⁽⁴⁾	2.9%	50	50	August 2026
		845	669	

- (1) Represents the effective interest rate for the year ended December 29, 2019, including the cash impact of interest rate swaps, where applicable.
- (2) The Company's committed unsecured revolving long-term bank credit facility of \$1 billion provides for an annual extension which is subject to the approval of the lenders. The spread added to the U.S. LIBOR-based variable interest rate is a function of the total net debt to EBITDA ratio (as defined in the credit facility agreement). In addition, an amount of \$22.5 million (December 30, 2018 - \$13.4 million) has been committed against this facility to cover various letters of credit.
- (3) The unsecured term loan is non-revolving and can be prepaid in whole or in part at any time with no penalties. The spread added to the U.S. LIBOR-based variable interest rate is a function of the total net debt to EBITDA ratio (as defined in the term loan agreement).
- (4) The unsecured notes issued for a total aggregate principal amount of \$300 million to accredited investors in the U.S. private placement market can be prepaid in whole or in part at any time, subject to the payment of a prepayment penalty as provided for in the Note Purchase Agreement.

In March 2019, the Company amended its unsecured revolving long-term bank credit facility of \$1 billion and its unsecured term loan of \$300 million, to extend the maturity dates from April 2023 to April 2024.

Under the terms of the revolving facility, term loan facility, and notes, the Company is required to comply with certain covenants, including maintenance of financial ratios. The Company was in compliance with all covenants at December 29, 2019.

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018
Long-term debt and bank total indebtedness	845.0	669.0
Lease obligations	81.5	—
Total indebtedness ⁽¹⁾	926.5	669.0
Cash and cash equivalents	(64.1)	(46.7)
Net indebtedness ⁽¹⁾	862.4	622.3

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

The primary measure used by the Company to monitor its financial leverage is its net debt leverage ratio as defined in section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A. Gildan's net debt leverage ratio as at December 29, 2019 was 1.6 times (December 30, 2018 - 1.0 times), which was within the range of its previously communicated target net debt leverage ratio range of one to two times pro-forma adjusted EBITDA for the trailing twelve months. The Company's net debt leverage ratio is calculated as follows:

<i>(in \$ millions, or otherwise indicated)</i>	December 29, 2019	December 30, 2018
Adjusted EBITDA for the trailing twelve months	548.1	595.5
Adjustment for:		
Business acquisitions	—	—
Pro-forma adjusted EBITDA for the trailing twelve months	548.1	595.5
Net indebtedness ⁽¹⁾	862.4	622.3
Net debt leverage ratio ⁽¹⁾	1.6	1.0

(1) See section 17.0 "Definition and reconciliation of non-GAAP financial measures" in this MD&A.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

For fiscal 2020, the Company is projecting capital expenditures of approximately \$125 million, primarily for investments in manufacturing capacity expansion.

We expect that cash flows from operating activities and the unutilized financing capacity under our long-term debt facilities will continue to provide us with sufficient liquidity for the foreseeable future to fund our organic growth strategy, including anticipated working capital and capital expenditure requirements, to fund dividends to shareholders, to provide us with financing flexibility to take advantage of potential acquisition opportunities which complement our organic growth strategy and to fund the NCIB discussed in section 8.5 below.

The Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue or repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances.

8.3 Outstanding share data

Our common shares are listed on the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX) under the symbol GIL. As at February 13, 2020, there were 198,783,090 common shares issued and outstanding along with 2,219,128 stock options and 114,127 dilutive restricted share units (Treasury RSUs) outstanding. Each stock option entitles the holder to purchase one common share at the end of the vesting period at a pre-determined option price. Each Treasury RSU entitles the holder to receive one common share from treasury at the end of the vesting period, without any monetary consideration being paid to the Company. Treasury RSUs are used exclusively for one-time awards to attract candidates or for retention purposes and their vesting conditions, including any performance objectives, are determined by the Board of Directors at the time of grant.

8.4 Declaration of dividend

The Company paid dividends of \$110.3 million during the year ended December 29, 2019. On February 19, 2020, the Board of Directors approved a 15% increase in the amount of the quarterly dividend and declared a cash dividend of \$0.154 per share for an expected aggregate payment of \$30.7 million which will be paid on April 6, 2020 on all of the issued and outstanding common shares of the Company, rateably and proportionately to the holders of record on March 12, 2020. This dividend is an "eligible dividend" for the purposes of the Income Tax Act (Canada) and any other applicable provincial legislation pertaining to eligible dividends.

As part of the Company's capital allocation framework as described in section 8.1 of this MD&A, the Board of Directors considers several factors when deciding to declare quarterly cash dividends, including the Company's present and future earnings, cash flows, capital requirements, and present and/or future regulatory and legal restrictions. There can be no assurance as to the declaration of future quarterly cash dividends. Although the Company's long-term debt agreements require compliance with lending covenants in order to pay dividends, these covenants are not currently, and are not expected to be, a constraint to the payment of dividends under the Company's dividend policy.

8.5 Normal course issuer bid (NCIB)

On February 21, 2018, the Board of Directors of the Company approved the initiation of an NCIB commencing on February 27, 2018 and ending on February 26, 2019 to purchase for cancellation up to 10,960,391 common shares, representing approximately 5% of the Company's issued and outstanding common shares. On August 1, 2018, the Company obtained approval from the TSX to amend its NCIB program in order to increase the maximum number of common shares that may be repurchased from 10,960,391 common shares, or approximately 5% of the Company's issued and outstanding common shares as at February 15, 2018 (the reference date for the previous NCIB), to 21,575,761 common shares, representing approximately 10% of the public float as at February 15, 2018. No other terms of the NCIB were amended.

On February 20, 2019, Gildan received approval from the TSX to renew its NCIB commencing on February 27, 2019 to purchase for cancellation up to 10,337,017 common shares, representing approximately 5% of the Gildan's issued and outstanding common shares.

During the year ended December 29, 2019, the Company repurchased for cancellation a total of 8,217,715 common shares under its NCIB program for a total cost of \$257.2 million. Of the total cost of \$257.2 million, \$6.7 million was charged to share capital and \$250.5 million was charged to retained earnings. For the period beginning December 30, 2019 and ended February 13, 2020, the Company repurchased 242,500 common shares under its NCIB program.

On February 19, 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation a maximum of 9,939,154 common shares, representing approximately 5% of the Company's issued and outstanding common shares. The Company is authorized to make purchases under the bid during the period from February 27, 2020 to February 26, 2021 in accordance with the requirements of the TSX. Purchases will be made by means of open market transactions on both the TSX and the New York Stock Exchange (NYSE), or alternative trading systems, if eligible, or by such other means as may be permitted by securities regulatory authorities, including pre-arranged crosses, exempt offers, private agreements under an issuer bid exemption order issued by securities regulatory authorities, and block purchases of common shares. The average daily trading volume (ADTV) of common shares on the TSX for the six-month period ended January 31, 2020 was 598,411. Consequently, and in accordance with the requirements of the TSX, Gildan may purchase up to a maximum of 149,602 common shares daily through TSX facilities, which represents 25% of the ADTV of common shares on the TSX for the most recently completed six calendar months.

9.0 LEGAL PROCEEDINGS

9.1 Claims and litigation

The Company is a party to claims and litigation arising in the normal course of operations. The Company does not expect the resolution of these matters to have a material adverse effect on the financial position or results of operations of the Company.

10.0 OUTLOOK

References related to management's expectations as to our outlook for fiscal 2020 is contained in our earnings results press release dated February 20, 2020 under the section entitled "Outlook". The press release is available on the SEDAR website at www.sedar.com, on the EDGAR website at www.sec.gov, and on our website at www.gildancorp.com.

11.0 FINANCIAL RISK MANAGEMENT

The Company is exposed to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk, interest rate risk, commodity price risk, as well as risks arising from changes in the price of our common shares under our share-based compensation plans. The disclosures under this section, in conjunction with the information in note 14 to the 2019 audited annual consolidated financial statements, are designed to meet the requirements of IFRS 7, *Financial Instruments: Disclosures*, and are therefore incorporated into, and are an integral part of, the 2019 audited annual consolidated financial statements.

The Company may periodically use derivative financial instruments to manage risks related to fluctuations in foreign exchange rates, commodity prices, interest rates, and the market price of its own common shares. The use of derivative financial instruments is governed by the Company's Financial Risk Management Policy approved by the Board of Directors and is administered by the Financial Risk Management Committee. The Financial Risk Management Policy of the Company stipulates that derivative financial instruments should only be used to hedge or mitigate an existing financial exposure that constitutes a commercial risk to the Company, and if the derivatives are determined to be the most efficient and cost effective means of mitigating the Company's exposure to liquidity risk, foreign currency risk, and interest rate risk, as well as risks arising from commodity prices. Hedging limits, as well as counterparty credit rating and exposure limitations are defined in the Company's Financial Risk Management Policy, depending on the type of risk that is being mitigated. Derivative financial instruments are not used for speculative purposes.

At the inception of each designated hedging derivative contract, we formally designate and document the hedging relationship and our risk management objective and strategy for undertaking the hedge. Documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how we will assess whether the hedging relationship meets the hedge effectiveness requirements, including our analysis of the sources of hedge ineffectiveness and how we determine the hedge ratio.

11.1 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 and arises primarily from the Company's trade accounts receivable. The Company may also have credit risk relating to cash and cash equivalents and derivative financial instruments, which it manages by dealing only with highly rated North American and European financial institutions. The Company's credit risk may also be exacerbated during periods of weak general economic and financial conditions. Our trade accounts receivable and credit exposure fluctuate throughout the year based on the seasonality of our sales and other factors. The Company's average trade accounts receivable and credit exposure during an interim reporting period may be significantly higher than the balance at the end of that reporting period. In addition, due to the seasonality of the Company's net sales, the Company's trade accounts receivable balance as at the end of a calendar year will typically be lower than at the end of an interim reporting period.

Under the terms of a receivables purchase agreement, the Company may continuously sell trade accounts receivables of certain designated customers to a third-party financial institution in exchange for a cash payment equal to the face value of the sold trade accounts receivables, less an applicable discount. The Company retains servicing responsibilities, including collection, for these trade accounts receivables but does not retain any credit risk with respect to any trade accounts receivables that have been sold. All trade accounts receivables sold under the receivables purchase agreement are removed from the consolidated statements of financial position, as the sale of the trade accounts receivables qualify for de-recognition. As at December 29, 2019, trade accounts receivables being serviced under a receivables purchase agreement amounted to \$141 million. The receivables purchase agreement, which allows for the sale of a maximum of \$175 million of accounts receivables at any one time, expires on June 22, 2020, subject to annual extensions.

The Company's credit risk for trade accounts receivables is concentrated as the majority of its sales are to a relatively small group of wholesale distributors and mass-market and other retailers. As at December 29, 2019, the Company's ten largest trade debtors accounted for 68% of trade accounts receivable; the largest of which accounted for 26%. The Company's main trade debtors are located in the U.S. The remaining trade accounts receivable balances are dispersed among a larger number of debtors across many geographic areas including the U.S., Canada, Europe, Asia-Pacific, and Latin America.

Most of the Company's customers have been transacting with the Company or its subsidiaries for several years. Many wholesale distributors are highly leveraged with significant reliance on trade credit terms provided by a few major vendors, including the Company, and third-party debt financing, including bank debt secured with trade accounts receivable and inventory pledged as collateral. The financial leverage of these customers may limit or prevent their ability to refinance existing indebtedness or to obtain additional financing and could affect their ability to comply with restrictive debt covenants and meet other obligations. The profile and credit quality of the Company's mass-market and other retailer customers vary significantly. Adverse changes in a customer's financial condition could cause us to limit or discontinue business with that customer, require us to assume more credit risk relating to that customer's future purchases, or result in uncollectible trade accounts receivable from that customer. Future credit losses relating to any one of our top ten customers could be material and could result in a material charge to earnings.

The Company's extension of credit to customers involves considerable judgment and is based on an evaluation of each customer's financial condition and payment history. The Company has established various internal controls designed to mitigate credit risk, including a dedicated credit function which recommends customer credit limits and payment terms that are reviewed and approved on a quarterly basis by senior management at the Company's primary sales offices in Christ Church, Barbados. Where available, the Company's credit departments periodically review external ratings and customer financial statements and, in some cases, obtain bank and other references. New customers are subject to a specific validation and pre-approval process. From time to time, where circumstances warrant, the Company will temporarily transact with customers on a prepayment basis. While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk in its entirety and there can be no assurance that these controls will continue to be effective or that the Company's low credit loss experience will continue.

The Company's exposure to credit risk for trade accounts receivable by geographic area was as follows as at:

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018
Trade accounts receivable by geographic area:		
United States	263.8	270.5
Canada	20.9	16.9
Europe and other	36.2	29.8
Total trade accounts receivable	320.9	317.2

The aging of trade accounts receivable balances was as follows as at:

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018
Not past due	301.2	257.8
Past due 0-30 days	7.6	21.0
Past due 31-60 days	5.3	16.3
Past due 61-120 days	3.3	14.8
Past due over 121 days	10.7	14.8
Trade accounts receivable	328.1	324.7
Less allowance for expected credit losses	(7.2)	(7.5)
Total trade accounts receivable	320.9	317.2

11.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. We rely on cash resources, debt, and cash flows generated from operations to satisfy our financing requirements. We may also require access to capital markets to support our operations as well as to achieve our strategic plans. Any impediments to our ability to continue to meet the covenants and conditions contained in our long-term debt agreements as well as our ability to access capital markets, the failure of a financial institution participating in our revolving long-term bank credit facilities, or an adverse perception in capital markets of our financial condition or prospects could have a material impact on our financing capability. In addition, our access to financing at reasonable interest rates could be influenced by the economic and credit market environment.

We manage liquidity risk through the management of our capital structure and financial leverage, as outlined in note 24 to the 2019 audited annual consolidated financial statements. In addition, we manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of our sales and cash receipts and the expected timing of capital expenditures. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as transactions such as the declaration of dividends, the initiation of share repurchase programs, mergers, acquisitions, and other major investments or divestitures.

11.2.1 Off-balance sheet arrangements and maturity analysis of contractual obligations

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been reflected in our consolidated statements of financial position except for purchase obligations, as well as minimum royalty payments, which are included in the table of contractual obligations below. The following table sets forth the maturity of our contractual obligations by period as at December 29, 2019.

<i>(in \$ millions)</i>	Carrying amount	Contractual cash flows	Less than 1 fiscal year	1 to 3 fiscal years	4 to 5 fiscal years	More than 5 fiscal years
Accounts payable and accrued liabilities	406.6	406.6	406.6	—	—	—
Long-term debt ⁽¹⁾	845.0	845.0	—	—	695.0	150.0
Purchase and other obligations	—	378.8	267.0	77.9	33.8	0.1
Lease obligations	81.5	104.2	20.0	29.5	17.1	37.6
Total contractual obligations	1,333.1	1,734.6	693.6	107.4	745.9	187.7

(1) Excluding interest

As disclosed in note 23 to our 2019 audited annual consolidated financial statements, we have granted financial guarantees, irrevocable standby letters of credit, and surety bonds to third parties to indemnify them in the event the Company and some of its subsidiaries do not perform their contractual obligations. As at December 29, 2019, the maximum potential liability under these guarantees was \$72.6 million, of which \$9.3 million was for surety bonds and \$63.3 million was for financial guarantees and standby letters of credit.

11.3 Foreign currency risk

The majority of the Company's cash flows and financial assets and liabilities are denominated in U.S. dollars, which is the Company's functional and reporting currency. Foreign currency risk is mainly limited to the portion of the Company's business transactions denominated in currencies other than U.S. dollars, primarily for sales and distribution expenses for customers outside the U.S., certain equipment purchases, and head office expenses in Canada. The Company's exposure relates primarily to changes in the U.S. dollar versus the Canadian dollar, the Pound sterling, the Euro, the Australian dollar, the Mexican peso, and the Chinese yuan. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the U.S. dollar will create volatility in the Company's cash flows, in the reported amounts for sales and SG&A expenses in its consolidated statement of earnings and comprehensive income, and for property, plant and equipment in its consolidated statement of financial position, both on a period-to-period basis and compared with operating budgets and forecasts. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in currencies other than the U.S. dollar at the rates of exchange at each reporting date, the impact of which is reported as a foreign exchange gain or loss and included in financial expenses (net) in the statement of earnings and comprehensive income.

The Company also incurs a portion of its manufacturing costs in foreign currencies, primarily payroll costs paid in Honduran Lempiras, Dominican Pesos, Mexican Pesos, Nicaraguan Cordobas, and Bangladeshi Taka, as well as in Canadian dollars. Significant changes in these currencies relative to the U.S. dollar exchange rate in the future, could have a significant impact on our operating results.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows, by transacting with third parties in U.S. dollars to the maximum extent possible and practical and holding cash and cash equivalents and incurring borrowings in U.S. dollars. The Company monitors and forecasts the values of net foreign currency cash flows and, from time to time will authorize the use of derivative financial instruments, such as forward foreign exchange contracts with maturities of up to three years, to economically hedge a portion of foreign currency cash flows. The Company had forward foreign exchange contracts outstanding as at December 29, 2019, consisting primarily of contracts to sell and buy Canadian dollars, sell Euros, sell Pounds sterling, sell Australian dollars, and sell Mexican pesos in exchange for U.S. dollars. The outstanding contracts and other foreign exchange contracts that were settled during fiscal 2019 were designated as cash flow hedges and qualified for hedge accounting. The underlying risk of the foreign exchange contracts is identical

to the hedged risk and, accordingly, we have established a ratio of 1:1 for all foreign exchange hedges. No ineffectiveness was recognized in net earnings, as the change in value used for calculating the ineffectiveness of the hedging instruments was the same as the change in value used for calculating the ineffectiveness of the hedged items. We refer the reader to note 14 to the 2019 audited annual consolidated financial statements for details of these financial derivative contracts and the impact of applying hedge accounting.

The following tables provide an indication of the Company's significant foreign currency exposures included in the consolidated statement of financial position as at December 29, 2019 arising from financial instruments:

<i>(in U.S. \$ millions)</i>	December 29, 2019								
	CAD	GBP	EUR	AUD	MXN	CNY	BDT	COP	JPY
Cash and cash equivalents	2.3	1.5	0.7	0.9	6.6	1.8	3.5	1.4	0.6
Trade accounts receivable	20.3	1.6	7.6	2.1	4.6	11.6	—	2.5	0.5
Prepaid expenses, deposits and other current assets	—	—	0.4	—	—	0.4	1.4	1.6	—
Accounts payable and accrued liabilities	(13.4)	(0.7)	(5.2)	(0.3)	(3.2)	(5.0)	(1.8)	(0.1)	(0.3)

Based on the Company's foreign currency exposures arising from financial instruments noted above, and the impact of outstanding derivative financial instruments designated as effective hedging instruments, varying the foreign exchange rates to reflect a 5 percent strengthening of the U.S. dollar would have increased (decreased) earnings and other comprehensive income as follows, assuming that all other variables remained constant:

<i>(in U.S. \$ millions)</i>	For the year ended December 29, 2019								
	CAD	GBP	EUR	AUD	MXN	CNY	BDT	COP	JPY
Impact on earnings before income taxes	(0.5)	(0.1)	(0.2)	(0.1)	(0.4)	(0.4)	(0.2)	(0.3)	—
Impact on other comprehensive income before income taxes	1.0	2.0	1.8	0.2	0.6	—	—	—	—

An assumed 5 percent weakening of the U.S. dollar during the year ended December 29, 2019 would have had an equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

11.4 Commodity risk

The Company is subject to the commodity risk of cotton prices and cotton price movements, as the majority of its products are made of 100% cotton or blends of cotton and synthetic fibers. The Company is also subject to the risk of fluctuations in the prices of crude oil and petrochemicals as they influence the cost of polyester fibers which are used in many of its products. The Company purchases cotton from third-party merchants, cotton-based yarn from third-party yarn manufacturers, and polyester fibers from third-party polyester manufacturers. The Company assumes the risk of price fluctuations for these purchases. The Company enters into contracts, up to eighteen months in advance of future delivery dates, to establish fixed prices for its cotton and cotton-based yarn purchases and polyester fibers purchases, in order to reduce the effects of fluctuations in the cost of cotton, crude oil, and petrochemicals used in the manufacture of its products. These contracts are not used for trading purposes and are not considered to be financial instruments that would need to be accounted for at fair value in the Company's consolidated financial statements. Without taking into account the impact of fixed price contracts, a change of \$0.01 per pound in the price of cotton or polyester fibers would affect the Company's annual raw material costs by approximately \$6 million, based on current production levels.

In addition, fluctuations in crude oil or petroleum prices also affect our energy consumption costs and can influence transportation costs and the cost of related items used in our business, including other raw materials we use to manufacture our products such as chemicals, dyestuffs, and trims. We generally purchase these raw materials at market prices.

The Company also has the ability to enter into derivative financial instruments, including futures and option contracts, to manage its exposure to movements in commodity prices. Such contracts are accounted for at fair value in the consolidated financial statements in accordance with the accounting standards applicable to financial instruments. During fiscal 2019, the Company entered into commodity derivative contracts as described in note 14 to the 2019 audited annual consolidated financial statements. The underlying risk of the commodity derivative contracts is identical to the hedged risk and accordingly, we have established a ratio of 1:1 for all commodity derivative hedges. Due to a strong correlation between commodity future

contract prices and our purchased costs, we did not experience any significant ineffectiveness on our hedges. We refer the reader to note 14 to the 2019 audited annual consolidated financial statements for details of these derivative contracts and the impact of applying hedge accounting.

11.5 Interest rate risk

The Company is subject to interest rate risk arising from its \$300 million term loan, \$100 million of its unsecured notes payable, and amounts drawn on its revolving long-term bank credit facilities, all of which bear interest at a variable U.S. LIBOR-based interest rate, plus a spread.

The Company generally fixes the rates for LIBOR-based borrowings for periods of one to three months. The interest rates on amounts drawn on debt agreements and on any future borrowings will vary and are unpredictable. Increases in interest rates on new debt issuances may result in a material increase in financial charges.

The Company has the ability to enter into derivative financial instruments that would effectively fix its cost of current and future borrowings for an extended period of time. The Company has floating-to-fixed interest rate swaps outstanding to hedge up to \$250 million of its floating interest rate exposure on a designated portion of certain long-term debt agreements. The interest rate swap contracts are designated as cash flow hedges and qualify for hedge accounting.

As our floating rate debt has a variable rate of interest linked to LIBOR as a benchmark for establishing the rate, the anticipated changes to LIBOR after 2021 could impact the cost of our variable rate indebtedness. In July 2017, the United Kingdom's Financial Conduct Authority (FCA), which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. It is likely that banks will not continue to provide submissions for the calculation of LIBOR after 2021 and possible that they may not provide submissions before then. It is impossible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what effects any changes to LIBOR or the transition to alternative reference rates may have on variable rate indebtedness or on our business, financial condition, or results of operations. The consequence of these developments cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness. If LIBOR rates are no longer available or viewed as an acceptable market benchmark, and we and our lenders negotiate the substitution of reference rates in our debt agreements (such as a new widely recognized benchmark rates for newly originated loans) for the calculation of interest rates under our floating rate debt, we may incur expenses in effecting the transition, and may be subject to disputes or litigation with lenders over the appropriateness or comparability to LIBOR of the substitute reference rates.

Based on the value of interest-bearing financial instruments during the year ended December 29, 2019, an assumed 0.5 percentage point increase in interest rates during such period would have decreased earnings before income taxes by \$2.4 million. An assumed 0.5 percentage point decrease in interest rates would have had an equal but opposite effect on earnings before income taxes, assuming that all other variables remain constant.

12.0 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Our significant accounting policies are described in note 3 to our 2019 audited annual consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make 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.

12.1 Critical judgments in applying accounting policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Determination of cash-generating units (CGUs)

The identification of CGUs and grouping of assets into the respective CGUs is based on currently available information about actual utilization experience and expected future business plans. Management has taken into consideration various factors in identifying its CGUs. These factors include how the Company manages and monitors its operations, the nature of each CGU's operations, and the major customer markets they serve. As such, the Company has identified its CGUs for purposes of testing the recoverability and impairment of non-financial assets to be Textile & Sewing and Hosiery.

Income taxes

The Company's income tax provisions and income tax assets and liabilities are based on interpretations of applicable tax laws, including income tax treaties between various countries in which the Company operates, as well as underlying rules and regulations with respect to transfer pricing. These interpretations involve judgments and estimates and may be challenged through government taxation audits that the Company is regularly subject to. New information may become available that causes the Company to change its judgment regarding the adequacy of existing income tax assets and liabilities; such changes will impact net earnings in the period that such a determination is made.

12.2 Key sources of estimation uncertainty

Key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Allowance for expected credit losses

The Company makes an assessment of whether accounts receivable are collectable based on an expected credit loss model which factors in changes in credit quality since the initial recognition of trade accounts receivable based on customer risk categories. Credit quality is assessed by taking into account the financial condition and payment history of the Company's customers, and other factors. Furthermore, these estimates must be continuously evaluated and updated. The Company is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial condition deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Company could be required to record additional allowances. Alternatively, if the Company provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

Inventory valuation

The cost of inventories may no longer be recoverable if inventories are discontinued, damaged, in excess quantities, or if their selling prices or estimated forecast of product demand decline. Discontinued, damaged, and excess inventories are carried at the net realizable value, as those inventories are sold below cost in liquidation channels. In determining the net realizable value of finished goods, the Company considers recent recovery rates and current market conditions in these channels. The Company regularly reviews inventory quantities on hand, current production plans, and forecasted future sales, and inventories are written-down to net realizable value when it is determined that they are no longer fully recoverable. There is estimation uncertainty in relation to the identification of excess inventories and in the expected selling prices used in establishing the net realizable value. For inventories subject to the strategic product line initiative (refer to note 7 of the 2019 audited annual consolidated financial statements), there is also estimation uncertainty in relation to the quantities that the Company will be able to sell through its normal (non-liquidation) distribution channels at a selling price above cost. As at December 29, 2019, a 10% decrease or increase in the expected selling prices used to establish the net realizable value of inventories subject to the strategic product line initiative would result in either a decrease or an increase in inventories of approximately \$3.5 million, with a corresponding adjustment to cost of sales. If actual market conditions are less favorable than previously projected or if liquidation of the inventory which is no longer deemed fully recoverable is more difficult than anticipated, additional write-downs may be required.

Recoverability and impairment of non-financial assets

The calculation of fair value less costs of disposal or value in use for purposes of measuring the recoverable amount of non-financial assets involves the use of significant assumptions and estimates with respect to a variety of factors, including expected sales, gross margins, SG&A expenses, cash flows, capital expenditures, and the selection of an appropriate earnings multiple or discount rate, all of which are subject to inherent uncertainties and subjectivity. The assumptions are based on annual business plans and other forecasted results, earnings multiples obtained by using market comparables as references, and discount rates which are used to reflect market-based estimates of the risks associated with the projected cash flows, based on the best information available as of the date of the impairment test. Changes in circumstances, such as technological advances, adverse changes in third-party licensing arrangements, changes to the Company's business strategy, and changes in economic and market conditions can result in actual useful lives and future cash flows that differ significantly from estimates and could result in increased charges for amortization or impairment. Revisions to the estimated useful lives of finite-life non-financial assets or future cash flows constitute a change in accounting estimate and are applied prospectively. There can be no assurance that the estimates and assumptions used in the impairment tests will prove to be accurate predictions of the future. If the future adversely differs from management's best estimate of key economic assumptions and the associated cash flows materially decrease, the Company may be required to record material impairment charges related to its non-financial assets. Please refer to note 10 of the audited annual consolidated financial statements for the year ended December 29, 2019 for additional details on the recoverability of the Company's cash-generating units.

Income taxes

The Company has unused available tax losses and deductible temporary differences in certain jurisdictions. The Company recognizes deferred income tax assets for these unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable profit will be available against which these available tax losses and temporary differences can be utilized. The Company's projections of future taxable profit involve the use of significant assumptions and estimates with respect to a variety of factors, including future sales and operating expenses. There can be no assurance that the estimates and assumptions used in our projections of future taxable income will prove to be accurate predictions of the future, and in the event that our assessment of the recoverability of these deferred tax assets changes in the future, a material reduction in the carrying value of these deferred tax assets could be required, with a corresponding charge to net earnings.

13.0 ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS NOT YET APPLIED

13.1 Accounting policies

The Company's audited consolidated financial statements for fiscal 2019 were prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), using the same accounting policies as those applied in its fiscal 2018 audited annual consolidated financial statements, except as described below.

Leases

IFRS 16, Leases, specifies how to recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments (lease obligation), for all leases unless the Company elects to exclude leases when the lease term is twelve months or less, or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Please refer to note 2(c) to the audited consolidated financial statements for the year ended December 29, 2019 for a detailed description of the impact of adoption of IFRS 16 and note 3(cc) for the Company's updated lease accounting policy.

Uncertain Income Tax Treatments

IFRIC 23, Uncertainty Over Income Tax Treatments, clarifies how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty regarding income tax treatments. The Interpretation addresses whether an entity needs to consider uncertain tax treatments separately, the assumptions an entity should make about the examination of tax treatments by taxation authorities, how an entity should determine taxable profit and loss, tax bases, unused tax losses, unused tax credits, and tax rates, and how an entity considers changes in facts and circumstances in such determinations. The Company adopted IFRIC 23 on December 31, 2018, and its adoption did not have an impact on the Company's consolidated financial statements.

Amendments to Hedge Accounting Requirements

On September 26, 2019, the IASB published "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)" as a first reaction to the potential effects the IBOR reform could have on financial reporting. Interbank offered rates ("IBORs") are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity, and in a particular interbank term lending market. Recent market developments have brought into question the long-term viability of those benchmarks. The amendments, which address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform and require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. The amendments are effective for annual periods beginning on or after January 1, 2020, early adoption is permitted, and must be applied retrospectively. The Company has floating rate debt with a variable rate of interest linked to LIBOR as a benchmark for establishing the rate, a portion of which is hedged with \$250 million of floating-to-fixed interest rate swaps that are designated as cash flow hedges as described in note 14(b) to the audited consolidated financial statements for the year ended December 29, 2019. As the amendments allow the Company to continue hedge accounting, the Company early adopted the amendments effective September 30, 2019 (first day of the fourth quarter of fiscal 2019). The amounts included in other comprehensive income in relation to floating-to-fixed interest rate swaps that are designated as cash flow hedges and that are mostly affected by the IBOR reform were not significant.

13.2 New accounting standards and interpretations not yet applied

The following new accounting standards are not effective for the year ended December 29, 2019 and have not been applied in preparing the audited annual consolidated financial statements.

Amendments to IFRS 3, Business combinations

In October 2018, the IASB issued amendments to IFRS 3, Business combinations. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively. Given the prospective application of the amendment, at this time the Company does not expect any significant impacts as a result of its adoption.

14.0 DISCLOSURE CONTROLS AND PROCEDURES

As stated in the Canadian Securities Administrators' National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* and Rules 13a-15(e) and 15d-15(e) under the *U.S. Securities Exchange Act of 1934*, as amended, disclosure controls and procedures means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer 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 an issuer in its annual filings, interim filings, or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures as of December 29, 2019 was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 29, 2019.

15.0 INTERNAL CONTROL OVER FINANCIAL REPORTING

15.1 Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13(a)-15(f) and 15(d)-15(f) under the *U.S. Securities Exchange Act of 1934* and under National Instrument 52-109.

Our internal control over financial reporting means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and (3) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the annual financial statements or interim financial reports.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. As a result, due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 29, 2019, based on the framework set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation under this framework, our Chief Executive

Officer and our Chief Financial Officer concluded that our internal control over financial reporting was effective as of December 29, 2019.

15.2 Attestation report of independent registered public accounting firm

KPMG LLP, an independent registered public accounting firm, which audited and reported on our consolidated financial statements, has issued an unqualified report on the effectiveness of our internal control over financial reporting as of December 29, 2019.

15.3 Changes in internal control over financial reporting

There have been no changes that occurred during the period beginning on September 30, 2019 and ended on December 29, 2019 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

16.0 RISKS AND UNCERTAINTIES

In addition to the risks previously described under the sections “Financial risk management”, “Critical accounting estimates and judgments”, and those described elsewhere in this MD&A, this section describes the principal risks that could have a material and adverse effect on our financial condition, results of operations or business, cash flows, or the trading price of our common shares, as well as cause actual results to differ materially from our expectations expressed in or implied by our forward-looking statements. The risks listed below are not the only risks that could affect the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our financial condition, results of operations, cash flows, or business.

Our ability to implement our growth strategies and plans

The growth of our business depends on the successful execution of our key strategic initiatives, which are described in section 4.0 of this MD&A. Although we are currently selling fashion basics in North America and we have been growing our sales of imprints in international markets, we may not be successful in further increasing our penetration in these markets, as the required skill set, capabilities, and brand positioning to do so may be different than those the Company possesses or has the ability to develop. Our sales growth opportunities may be limited or negatively impacted by customers, including wholesale distributors and retailers pursuing growth of their own private label offerings that we do not supply which ultimately compete against our own brands. With the rising trend of retailers shifting focus to proprietary private label offerings, our growth prospects may be limited or negatively impacted if we are unsuccessful in securing these types of private label programs. Our financial performance may be negatively impacted if new business that we secure in existing or new channels of distribution has lower economic returns. As consumers increasingly migrate towards on-line shopping, our future sales may be negatively impacted if we fail to continue to grow our sales with, and service, major retailers' e-commerce businesses. From a manufacturing perspective, there can be no assurance that we will successfully add new capacity in Bangladesh or other regions, or that we will not encounter operational issues that may affect or disrupt our current production or supply chain or delay the ramp-up of new facilities required to support sales growth. Our ability to generate cash flows from operations will depend on the success we have in executing our key strategic initiatives, which in turn will ultimately impact our ability to pursue acquisition opportunities. Furthermore, we may be unable to identify acquisition targets, successfully integrate a newly acquired business, or achieve expected benefits and synergies from such integration.

Our ability to compete effectively

The markets for our products are highly competitive and evolving rapidly. Competition is generally based upon price, quality and consistency, comfort, fit, style, brand, and service. Our competitive strengths include our expertise in building and operating large-scale, vertically integrated manufacturing hubs which have allowed us to operate efficiently and reduce costs, offer competitive pricing, and provide a reliable supply chain. There can be no assurance that we will be able to maintain our low cost manufacturing and distribution structure and remain competitive. As discussed in section 3.3 of this MD&A, we compete with domestic and international manufacturers, brands of well-established U.S. apparel and sportswear companies, as well as our own customers, including retailers and wholesale distributors that are selling basic apparel products under their own private label brands that compete directly with our brands. In addition, shopping trends are also evolving, on-line shopping is growing rapidly, and e-commerce is further intensifying competition in the market as it facilitates competitive entry and comparison shopping. Failure to compete effectively and respond to evolving trends in the market, including intensifying competition from private label brands and e-commerce, and failure to adapt our operations to service the changing needs of our customers could have a negative impact on our business and results of operations. Any changes in our ability to compete effectively in the future may result in the loss of customers to competitors, reduction in customer orders or shelf space, lower prices or the need for additional customer price incentives, and other forms of marketing support to our customers,

all of which could have a negative effect on our sales volumes or profitability if we are unable to offset such negative impacts with new business or cost reductions.

Our ability to integrate acquisitions

The Company's strategic opportunities include potential complementary acquisitions that could support, strengthen, or expand our business. The integration of newly acquired businesses may prove to be more challenging, take more time than originally anticipated, or result in significant additional costs and/or operational issues, all of which could negatively affect our financial condition and results of operations. In addition, we may not be able to fully realize expected synergies and other benefits.

We may be negatively impacted by changes in general economic and financial conditions

General economic and financial conditions, globally or in one or more of the markets we serve, may negatively affect our business. If there is a decline in economic growth and in consumer and commercial activity, and/or if adverse financial conditions exist in the credit markets, as in the case of the global credit crisis in 2008 and 2009, this may lead to lower demand for our products resulting in sales volume reductions and lower selling prices and may cause us to operate at levels below our optimal production capacity, which would result in higher unit production costs, all of which could negatively affect our profitability and reduce cash flows from operations. Weak economic and financial conditions could also negatively affect the financial condition of our customers, which could result in lower sales volumes and increased credit risk. The nature and extent of the Company's credit risks are described under the section "Financial risk management" in this MD&A.

We rely on a small number of significant customers

We rely on a small number of customers for a significant portion of our total sales. In fiscal 2019, our top two customers accounted for 18.6% and 13.8% (2018 - 19.0% and 10.0%) of total sales respectively, and our top ten customers accounted for 59.4% (2018 - 56.5%) of total sales. We expect that these customers will continue to represent a significant portion of our sales in the future.

Future sales volumes and profitability could be negatively affected should one or more of the following events occur:

- a significant customer substantially reduces its purchases or ceases to buy from us, or we elect to reduce the volume of business with or cease to sell to a significant customer, and we cannot replace that business with sales to other customers on similar terms;
- a large customer exercises its purchasing power to negotiate lower prices or higher price discounts or requires us to incur additional service and other costs;
- a customer experiences operational disruptions due to fires, extreme weather conditions, natural disasters or pandemics, information system failures or incidents, and other factors;
- further industry consolidation leads to greater customer concentration and competition; and
- a customer encounters financial difficulties and is unable to meet its financial obligations.

Our customers do not commit to purchase minimum quantities

Our contracts with our customers do not require them to purchase a minimum quantity of our products or commit to minimum shelf space allocation for our products. If any of our customers experience a significant business downturn or fail to remain committed to our products, they may reduce or discontinue purchases from us. Although we have maintained long-term relationships with many of our wholesale distributor and retail customers, there can be no assurance that historic levels of business from any of our customers will continue in the future.

Our ability to anticipate, identify, or react to changes in consumer preferences and trends

While we currently focus on basic products, the apparel industry, particularly within the retail channel, is subject to evolving consumer preferences and trends. Our success may be negatively impacted by changes in consumer preferences which do not fit with Gildan's core competency of marketing and large-scale manufacturing of basic apparel products. If we are unable to successfully anticipate, identify or react to changing styles or trends, or misjudge the market for our products, our sales could be negatively impacted and we may be faced with unsold inventory which could negatively impact our profitability. In addition, when introducing new products for our customers we may incur additional costs and transitional manufacturing inefficiencies as we ramp-up production or upgrade manufacturing capabilities to support such customer programs, which could negatively impact our profitability.

Our ability to manage production and inventory levels effectively in relation to changes in customer demand

Demand for our products may vary from year to year. We aim to appropriately balance our production and inventory with our ability to meet market demand. Based on discussions with our customers and internally generated projections reflecting our analysis of factors impacting industry demand, we produce and carry finished goods inventory to meet the expected demand for delivery of specific product categories. If, after producing and carrying inventory in anticipation of deliveries, demand is significantly less than expected, we may have to carry inventory for extended periods of time or sell excess inventory at reduced prices. In either case, our profits would be reduced. Excess inventory could also result in lower production levels, resulting in lower plant and equipment utilization and lower absorption of fixed operating costs. Alternatively, we are also exposed to loss of sales opportunities and market share if we produce insufficient inventory to satisfy our customers' demand for specific product categories as a result of underestimating market demand or not meeting production targets, in which case our customers could seek to fulfill their product needs from competitors and reduce the amount of business they do with us.

We may be negatively impacted by fluctuations and volatility in the price of raw materials used to manufacture our products

Cotton and polyester fibers are the primary raw materials used in the manufacture of our products. We also use chemicals, dyestuffs, and trims which we purchase from a variety of suppliers. The price of cotton fluctuates and is affected by consumer demand, global supply, which may be impacted by weather conditions in any given year, speculation in the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries, and other factors that are generally unpredictable and beyond our control. In addition, fluctuations in crude oil or petroleum prices affect our energy consumption costs and can also influence transportation costs and the cost of related items used in our business, such as polyester fibers, chemicals, dyestuffs, and trims. Fluctuations in energy prices are partly influenced by government policies to address climate change, which could increase our energy costs beyond our current expectations. As discussed under the heading entitled "Commodity risk" in the "Financial risk management" section of this MD&A, the Company purchases cotton and polyester fibers through its yarn-spinning facilities, and also purchases processed cotton yarn and blended yarn from outside vendors, at prices that are correlated with the price of cotton and polyester fibers. The Company may enter into contracts up to eighteen months in advance of future delivery dates to establish fixed prices for cotton, cotton-based yarn, and polyester fiber purchases and reduce the effect of price fluctuations in the cost of cotton and polyester fibers used in the manufacture of its products. For future delivery periods where such fixed price contracts have been entered into, the Company will be protected against cotton and polyester fiber price increases but would not be able to benefit from cotton or polyester fiber price decreases. Conversely, in the event that we have not entered into sufficient fixed priced contracts for cotton or polyester fibers, or have not made other arrangements to lock in the price of cotton or polyester fibers in advance of delivery, we will not be protected against price increases, but will be in a position to benefit from any price decreases. A significant increase in raw material costs, particularly cotton and polyester fiber costs, could have a negative effect on our business, results of operations, and financial condition, if the increase or part of the increase is not mitigated through additional manufacturing and distribution cost reductions and/or higher selling prices, or if resulting selling price increases negatively impact demand for the Company's products. In addition, when the Company fixes its cotton and polyester fiber costs for future delivery periods and the cost of cotton or polyester fibers subsequently decreases significantly for that delivery period, the Company may need to reduce selling prices, which could have a negative effect on our business, results of operations and financial condition.

We rely on key suppliers

Our ability to meet our customers' needs depends on our ability to maintain an uninterrupted supply of raw materials and finished goods from third-party suppliers. More specifically, we source cotton, cotton-based yarns, polyester fibers, chemicals, dyestuffs, and trims primarily from a limited number of outside suppliers. In addition, a substantial portion of the products sold under the Gold Toe® portfolio of brands and licensed brands are purchased from a number of third-party suppliers. Our business, results of operations, and financial condition could be negatively affected if there is a significant change in our relationship with any of our principal suppliers of raw materials or finished goods, or if any of these key suppliers have difficulty sourcing cotton fibers and other raw materials, experience production disruptions, fail to maintain production quality, fail to qualify under our social compliance program, experience transportation disruptions or encounter financial difficulties. These events can result in lost sales, cancellation charges, or excessive markdowns, all of which can have a negative effect on our business, results of operations, and financial condition.

We may be negatively impacted by climate, political, social, and economic risks, natural disasters and pandemics in the countries in which we operate or from which we source production

The majority of our products are manufactured in Central America, primarily in Honduras and Nicaragua, as well as the Caribbean Basin, and to a lesser extent in Bangladesh, as described in the section entitled "Our operations" in this MD&A. We also purchase significant volumes of socks from third-party suppliers in Asia. Some of the countries in which we operate or source from have experienced political, social, and economic instability in the past, and we cannot be certain of their future stability. In addition, most of our facilities and those of our key suppliers are located in geographic regions that are exposed to the risk of, and have experienced in the past, hurricanes, floods, earthquakes, and pandemics. Any such events in the future could have a negative impact on our business.

The following conditions or events could disrupt our supply chain, interrupt operations at our facilities or those of our suppliers and customers, increase our cost of sales and other operating expenses, result in a loss of sales, asset losses, or require additional capital expenditures to be incurred:

- fires, extraordinary weather conditions, or natural disasters, such as hurricanes, tornadoes, floods, extreme heat, droughts, tsunamis, typhoons, and earthquakes;
- pandemics, such as the strain of coronavirus that surfaced in December 2019 in Wuhan, China, and which has spread to other countries, with reports of confirmed cases in the U.S. and Canada. At this point, the extent to which the coronavirus may impact our results is uncertain;
- political instability, social and labour unrest, war, or terrorism;
- disruptions in port activities, shipping and freight forwarding services; and
- interruptions in the availability of basic services and infrastructure, including power and water shortages.

Our insurance programs do not cover every potential loss associated with our operations, including potential damage to assets, lost profits, and liability that could result from the aforementioned conditions or events. In addition, our insurance may not fully cover the consequences resulting from a loss event, due to insurance limits, sub-limits, or policy exclusions. Any occurrence not fully covered by insurance could have a negative effect on our business.

Compliance with laws and regulations in the various countries in which we operate and the potential negative effects of litigation and/or regulatory actions

Our business is subject to a wide variety of laws and regulations across all of the countries in which we do business, which involves the risk of legal and regulatory actions regarding such matters as international trade, competition, taxation, environmental, health and safety, product liability, employment practices, patent and trademark infringement, corporate and securities legislation, licensing and permits, data privacy, bankruptcies, and other claims. Some of these compliance risks are further described in this "Risks and uncertainties" section of the MD&A. In the event of non-compliance with such laws and regulations, we may be subject to regulatory actions, claims and/or litigation which could result in fines, penalties, claim settlement costs or damages awarded to plaintiffs, legal defense costs, product recalls and related costs, remediation costs, incremental operating costs and capital expenditures to improve future/ongoing compliance, and damage to the Company's reputation. In addition, non-compliance with certain laws and regulations could result in regulatory actions that could temporarily or permanently restrict or limit our ability to conduct operations as planned, potentially resulting in lost sales, closure costs, and asset write-offs. Due to the inherent uncertainties of litigation or regulatory actions in both domestic and foreign jurisdictions, we cannot accurately predict the ultimate outcome of any such proceedings.

Laws and regulations are constantly changing and are often complex, and future compliance cannot be assured. Changes necessary to maintaining compliance with these laws and regulations may increase future compliance costs and have other negative impacts on our business, results of operations, and financial condition.

As part of the regulatory and legal environments in which we operate, Gildan is subject to anti-bribery laws that prohibit improper payments directly or indirectly to government officials, authorities, or persons defined in those anti-bribery laws in order to obtain business or other improper advantages in the conduct of business. Failure by our employees, subcontractors, suppliers, agents, and/or partners to comply with anti-bribery laws could impact Gildan in various ways that include, but are not limited to, criminal, civil and administrative legal sanctions, negative publicity, and could have a negative effect on our reputation as well as our business, results of operations, and financial condition.

We rely on certain international trade (including multilateral and bilateral) agreements and preference programs and are subject to evolving international trade regulations

As a multinational corporation, we are affected by domestic tariffs, including the potential imposition of anti-dumping or countervailing duties on our raw materials and finished goods, international trade legislation, as well as bilateral and multilateral trade agreements and trade preference programs in the countries in which we operate, source, and sell products. In order to remain globally competitive, we have situated our manufacturing facilities in strategic locations to benefit from various free trade agreements and trade preference programs. Furthermore, management continuously monitors new developments and evaluates risks relating to duties including anti-dumping and countervailing duties, tariffs, and trade restrictions that could impact our approach to global manufacturing and sourcing, and makes adjustments as needed. The Company relies on a number of preferential trade programs which provide duty free access to the U.S. market for goods meeting specified rules of origin, including the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR), the Caribbean Basin Trade Partnership Act (CBTPA), the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE), and the North American Free Trade Agreement (NAFTA), which is now expected to be replaced by the United States-Mexico-Canada Agreement (USMCA) all of which allow qualifying textiles and apparel from participating countries duty-free access to the U.S. market. The Company relies on similar arrangements to access the European Union, Canada, and other markets. Changes to trade agreements or trade preference programs that the Company currently relies on may negatively impact our global competitive position. The likelihood that the agreements and preference programs around which we have built our manufacturing supply chain will be modified, repealed, or allowed to expire, and the extent of the impact of such changes on our business, cannot be determined with certainty.

Recently there has been an increasing focus on U.S. domestic manufacturing that has drawn worldwide attention. The current U.S. Administration is encouraging companies to manufacture in the U.S. While a significant proportion of our costs to manufacture our products originate in the United States, the Company also has significant operations outside the U.S. There can be no assurance that the recent and continuing focus in this area may not attract negative publicity on the Company and its activities, lead to adverse changes in international trade agreements and preference programs that the Company currently relies on, the implementation of anti-dumping or countervailing duties or additional tariffs on the imports of our raw materials and finished goods into the U.S. from other countries, or lead to further tax reform in the U.S. that could increase our effective income tax rate. Furthermore, the imposition of non-tariff barriers by the countries into which we sell our products internationally may also impact our ability to service such markets. Any of such outcomes could negatively impact our ability to compete effectively and negatively affect our results of operations.

Most trade agreements provide for the application of special safeguards in the form of reinstatement of normal duties if increased imports constitute a substantial cause of serious injury, or threat thereof, to a domestic industry. The likelihood that a safeguard will be adopted and the extent of its impact on our business cannot be determined with certainty.

Furthermore, the imposition of any new domestic tariffs in any of the countries in which we operate may also negatively impact our global competitive position. For example, United States domestic law provides for the application of anti-dumping or countervailing duties on imports of products from certain countries into the United States should determinations be made by the relevant agencies that such imported products have been subsidized and/or are being sold at less than "fair value" and that such imports are causing a material injury to the domestic industry. The mechanism to implement anti-dumping and countervailing duties is available to every World Trade Organization member country. The impact of the imposition of such duties on products we import into the U.S. or other markets cannot be determined with certainty.

Following the United States' January 2017 withdrawal from the Trans-Pacific Partnership Agreement (TPP), the remaining countries participating in the TPP, namely, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam negotiated and agreed to a revised trade agreement known as the Comprehensive Progressive Trans-Pacific Partnership (CPTPP). CPTPP has been ratified by Australia, Canada, Japan, Mexico, New Zealand, Singapore, and Vietnam and officially came in force on December 30, 2018. The remaining participating countries (Brunei, Chile, Malaysia, and Peru) will not benefit or be bound by the agreement until they complete their ratification process. CPTPP may negatively affect our competitive position in some of the countries in which we sell our products.

In 2018, the United States, Canada, and Mexico concluded a renegotiated agreement of NAFTA, referred to as the USMCA. The USMCA is expected to replace NAFTA once it has been ratified by each of the member countries. The USMCA has been ratified by both Mexico and the U.S., and Canada is expected to do so in 2020. The USMCA brings more closely into alignment the apparel rules of origin with those of CAFTA-DR. NAFTA will remain in effect until the USMCA is ratified by each member country.

The European Union has an Association Agreement with Central America, including Honduras and Nicaragua, where we have production operations. The European Union also has preferential trade arrangements with other countries. The

European Union maintains a Generalized System of Preferences (GSP) and the Everything But Arms programs (EBA). These programs allow free or reduced duty entry into the European Union of qualifying articles, including apparel, from developing countries and least developed countries where we have manufacturing operations, including Haiti and Bangladesh. The European Union also affords preference to qualifying apparel from notable production venues including Vietnam, Myanmar and Pakistan, which could negatively impact our competitive position in the European Union. Any changes to these agreements, could have a negative impact on our operations.

On June 23, 2016, the United Kingdom voted to leave the European Union (Brexit). On January 24, 2020, the Withdrawal Agreement covering the withdrawal of the United Kingdom from the European Union was signed by the Prime Minister of the United Kingdom, the European Commission, and the President of the Council of the European Union. On January 25, 2020, the European Parliament ratified the Withdrawal Agreement which represented the final legal step in the Brexit process and the United Kingdom left the European Union at 11 PM GMT on January 31, 2020. From this date, the United Kingdom will enter a transition period lasting until December 31, 2020 during which it will need to comply with European Union rules and laws, unless otherwise provided in the Withdrawal Agreement. The relationship that the European Union and United Kingdom will have following the end of the transition period remains subject to negotiation with both sides expected to publish their negotiating positions early in 2020. Should an agreement not be reached between the two parties by the end of 2020, there could be a significant adverse impact on our operations. With respect to trade between the United Kingdom and other countries with which the European Union has trade agreements in effect, if the United Kingdom fails to timely implement identical or similar agreements or programs to the ones in effect with the European Union, it could also negatively impact the competitiveness of our supply chain in servicing those respective markets.

The People's Republic of China extends duty-free and quota-free trade benefits under the Asia-Pacific Trade Agreement and under a special preferential tariff program for Least Developed Countries to qualifying apparel articles from Bangladesh, including certain chief-weight cotton apparel articles. Any changes to this agreement or preference program could have a negative impact on our operations.

A segment of our goods from China have been subject to tariffs by the U.S. which are over-and-above the normal applicable duty rates. On January 15, 2020 a non-comprehensive Phase 1 deal was signed between the U.S. and China resulting in, among other things, the elimination of proposed tariffs on U.S. imports of certain Chinese products (List 4B) and a reduction in tariffs on certain Chinese products from 15% to 7.5% (List 4A) effective February 15, 2020. If China does not follow through on its commitments with respect to the Phase 1 deal, the proposed tariff elimination and the tariff reduction could be repealed. Furthermore, the tariffs on Chinese goods may further increase or additional goods may become subject to tariffs in the absence of a comprehensive agreement between the U.S. and China which could have a negative impact on our operations.

Overall, changes to trade agreements or trade preference programs that the Company currently relies on for our key country markets, or new agreements or arrangements that further liberalize access to our key country markets could negatively impact our competitiveness in those markets. The likelihood that any such agreements, measures, or programs will be adopted, or that the agreements and preference programs around which we have built our manufacturing supply chain will be modified, repealed, suspended, terminated, or allowed to expire, and the extent of the impact of such changes on our business, cannot be determined with certainty.

In addition, the Company is subject to customs audits as well as valuation and origin verifications in the various countries in which it operates. Although we believe that our customs compliance programs are effective at ensuring the eligibility of all goods manufactured for the preferential treatment claimed upon importation, we cannot predict the outcome of any governmental audit or inquiry.

The Company operates a U.S. foreign trade zone (FTZ) at one of its distribution warehouses in North Carolina. FTZs enhance efficiencies in the customs entry process and allow for the non-application of duty on certain goods distributed internationally. FTZs are highly regulated operations and while the Company believes it has adequate systems and controls in place to manage the regulatory requirements associated with its FTZ, we cannot predict the outcome of any governmental audit or examination of its FTZ.

In recent years, governmental bodies have responded to the increased threat of terrorist activity by requiring greater levels of inspection of imported goods and imposing security requirements on importers, carriers, and others in the global supply chain. These added requirements can sometimes cause delays and increase costs in bringing imported goods to market. We believe we have effectively addressed these requirements in order to maximize velocity in our supply chain, but changes in security requirements or tightening of security procedures, for example, in the aftermath of a terrorist incident, could cause delays in our goods reaching the markets in which we distribute our products.

Textile and apparel articles are generally not subject to specific export restrictions or licensing requirements in the countries where we manufacture and distribute goods. However, the creation of export licensing requirements, imposition of restrictions on export quantities, or specification of minimum export prices could potentially have a negative impact on our business. In addition, unilateral and multilateral sanctions and restrictions on dealings with certain countries and persons are unpredictable, continue to emerge and evolve in response to international economic and political events, and could impact our trading relationships with vendors or customers.

Factors or circumstances that could increase our effective income tax rate

The Company benefits from a low overall effective corporate tax rate as the majority of its profits are earned and the majority of its sales, marketing, and manufacturing operations are carried out in low tax rate jurisdictions in Central America and the Caribbean Basin. The Company's income tax filing positions and income tax provisions are based on interpretations of applicable tax laws in the jurisdictions in which it operates, including income tax treaties between various countries in which the Company operates as well as underlying rules and regulations with respect to transfer pricing. These interpretations involve judgments and estimates and may be challenged through government taxation audits that the Company is regularly subject to. Although the Company believes its tax filing positions are sustainable, we cannot predict with certainty the outcome of any audit undertaken by taxation authorities in any jurisdictions in which we operate, and the final result may vary compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in valuing its income tax assets and liabilities. Depending on the ultimate outcome of any such audit, there may be a negative impact on the Company's financial condition, results of operations, and cash flows. In addition, if the Company were to receive a tax reassessment by a taxation authority prior to the ultimate resolution of an audit, the Company could be required to submit an advance deposit on the amount reassessed.

The Company's overall effective income tax rate may also be adversely affected by the following: changes to current domestic laws in the countries in which the Company operates; changes to or terminations of the income tax treaties the Company currently relies on; an increase in income and withholding tax rates; changes to free trade and export processing zone rules in certain countries where the Company is currently not subject to income tax; changes to guidance regarding the interpretation and application of domestic laws, free trade and export processing zones, and income tax treaties; increases in the proportion of the Company's overall profits being earned in higher tax rate jurisdictions due to changes in the locations of the Company's operations; or other factors.

On December 22, 2017, the United States signed into law the Tax Cuts and Jobs Act (U.S. Tax Reform) which reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. In addition, other changes to U.S. corporate tax laws resulting from the U.S. tax reform included the limitation on deductibility of interest expense paid by U.S. corporations and the introduction of the base erosion anti-abuse tax that applies an additional tax under certain conditions related to certain payments made by U.S. corporations to foreign related parties. Although we do not expect a significant adverse effect to our tax rate resulting from the U.S. tax reform, any further significant changes to the current tax rules which govern the manner in which sales and profits are taxed in the U.S. could materially increase the effective income tax rate of the Company.

We have not recognized a deferred income tax liability for the undistributed profits of our subsidiaries, as we currently have no intention to repatriate these profits. If our expectations or intentions change in the future, we could be required to recognize a charge to earnings for the tax liability relating to the undistributed profits of our subsidiaries, which would also result in a corresponding cash outflow in the years in which the earnings would be repatriated. As at December 29, 2019, the estimated income tax liability that would result in the event of a full repatriation of these undistributed profits is approximately \$57 million.

Provisions for uncertain tax positions are measured at the best estimate of the amounts expected to be paid upon ultimate resolution. The Company's overall effective income tax rate is impacted by its assessment of uncertain tax positions and whether additional taxes and interest may be due. The Company's assessment of uncertain tax positions may be negatively affected as a result of new information, a change in management's assessment of the technical merits of its positions, changes to tax laws, administrative guidance, and the conclusion of tax audits.

Compliance with environmental and health and safety regulations

We are subject to various federal, state, local, and other environmental and occupational health and safety laws and regulations in the different jurisdictions in which we operate, concerning, among other things, wastewater discharges, air emissions, storm water flows, and waste disposal. Our manufacturing plants generate some quantities of waste, which are recycled, repurposed, or disposed of by licensed waste management companies, in cases of hazardous waste. Through our Global Environment & Energy Policy, Restricted Substance Code of Practice and Environmental Management System, we seek not only to comply with all applicable laws and regulations, but also to reduce our environmental footprint through an efficient use of resources, landfill reduction and the prioritization of recycling. Although we believe that we are currently in compliance in all material respects with the regulatory requirements of those jurisdictions in which our facilities are located, the extent

of our liability, if any, for failures to comply with laws, regulations, and permits applicable to our operations cannot be reasonably determined. In line with our commitment to the environment, as well as to the health and safety of our employees, we incur capital and other expenditures each year that are aimed, not only at achieving compliance with current environmental standards, but also to proactively improve our sustainable performance. There can be no assurance that future changes in federal, state, local, or other regulations, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional environmental operating and remediation expenditures or fines/penalties, or result in a disruption to our supply chain that could have an adverse effect on our business, results of operation, or financial condition.

During fiscal 2013, Gildan was notified that a Gold Toe subsidiary has been identified as one of numerous "potentially responsible parties" at a certain waste disposal site undergoing an investigation by the Pennsylvania Department of Environmental Protection under the Pennsylvania Hazardous Sites Cleanup Act and the Solid Waste Management Act. As a result of activities alleged to have occurred during the 1980's, Gildan could be liable to contribute to the costs of any investigation or cleanup action which the site may require, although to date we have insufficient information from the authorities as to the potential costs of the investigation and cleanup to reasonably estimate Gildan's share of liability for any such costs, if any.

Global climate change could have an adverse impact on our business

Global climate change could exacerbate certain of the threats facing our business, including the frequency and severity of acute weather-related events referred to in some of the risks in this section of the MD&A. In addition, longer-term chronic shifts in weather patterns may result in rising sea levels, or declining fresh water availability and quality, which could restrict the capacity and cost effectiveness of our textile operations and impact the cost and availability of our core raw materials such as cotton. The imposition of new laws and regulations regarding climate change can also impact our business, including an increase in environmental compliance costs and the cost of energy and transportation in our operations. We may be unable to recover higher operating costs resulting from global climate change through higher selling prices. Overall, the short-term and longer-term impacts of global climate change are uncertain, and could have an adverse effect on our business, results of operation, or financial condition.

Compliance with product safety regulations

We are subject to consumer product safety laws and regulations that could affect our business. In the United States, we are subject to the *Consumer Product Safety Act*, as amended by the *Consumer Product Safety Improvement Act* of 2008, the *Federal Hazardous Substances Act*, the *Flammable Fabrics Act*, the *Toxic Substances Control Act*, and rules and regulations enacted pursuant to these statutes. Such laws provide for substantial penalties for non-compliance. These statutes and regulations include requirements for testing and certification for flammability of wearing apparel, for lead content and lead in surface coatings in children's products, and for phthalate content in child care articles, including plasticized components of children's sleepwear. We are also subject to similar laws and regulations, and to additional warning and reporting requirements, in the various individual states within the U.S. in which our products are sold.

In Canada, we are subject to similar laws and regulations, including the *Hazardous Products Act* and the *Canada Consumer Product Safety Act*, which apply to manufacturers, importers, distributors, advertisers, and retailers of consumer products. In the European Union, we are also subject to product safety regulations, including those which are imposed pursuant to the *General Product Safety Directive* and the *Registration, Evaluation, Authorisation and Restriction of Chemicals*, which places responsibility on all manufacturers to identify and manage the risks that chemical substances may pose to human health and to the environment. We are also subject to similar laws and regulations in the other jurisdictions in which our products are sold.

Compliance with existing and future product safety laws and regulations and enforcement policies may require that we incur capital and other costs, which may be significant. Non-compliance with applicable product safety laws and regulations may result in substantial fines and penalties, costs related to the recall, replacement and disposal of non-compliant products, as well as negative publicity which could harm our reputation and result in a loss of sales. Our customers may also require us to meet existing and additional consumer safety requirements, which may result in our inability to provide the products in the manner required. Although we believe that we are in compliance in all material respects with applicable product safety laws and regulations in the jurisdictions in which we operate, the extent of our liability and risk of business interruption, if any, due to failures to comply with laws, regulations, and permits applicable to our operations cannot be reasonably determined.

We may be negatively impacted by changes in our relationship with our employees or changes to domestic and foreign employment regulations

We employ approximately 53,000 employees worldwide. As a result, changes in domestic and foreign laws governing our relationships with our employees, including wage and human resources laws and regulations, fair labour standards, overtime pay, unemployment tax rates, workers' compensation rates, and payroll taxes, would likely have a direct impact on our operating costs. The majority of our employees are employed outside Canada and the United States. A significant increase in wage rates or the cost of benefit programs in the countries in which we operate could have a negative impact on our operating costs.

The Company has historically been able to operate in a productive manner in all of its manufacturing facilities without experiencing significant labour disruptions, such as strikes or work stoppages. Many of our employees are members of labour organizations, and the Company is party to a number of collective bargaining agreements, primarily relating to its sewing operations in Nicaragua and Honduras. If labour relations were to change or deteriorate at any of our facilities or any of our third-party contractors' facilities, this could negatively affect the productivity and cost structure of the Company's manufacturing operations.

We may experience negative publicity as a result of actual, alleged, or perceived violations of labour laws or international labour standards, unethical labour, and other business practices

We are committed to ensuring that all of our operations and contractor operations comply with our strict internal Code of Conduct, local and international laws, and the codes and principles to which we subscribe, including those of the Fair Labor Association (FLA) and the Worldwide Responsible Accredited Production (WRAP). While the majority of our manufacturing operations are conducted through Company-owned facilities, we also utilize third-party contractors, which we do not control, to complement our vertically integrated production. If one of our own manufacturing operations or one of our third-party contractors or sub-contractors violates or is accused of violating local or international labour laws or other applicable regulations, or engages in labour or other business practices that would be viewed, in any market in which our products are sold, as unethical, we could experience negative publicity which could harm our reputation and result in a loss of sales.

We may be negatively impacted by changes in third-party licensing arrangements and licensed brands

A number of products are designed, manufactured, sourced, and sold under trademarks that we license from third parties, under contractual licensing relationships that are subject to periodic renewal. Because we do not control the brands licensed to us, our licensors could make changes to their brands or business models that could result in a significant downturn in a brand's business, negatively affecting our sales and results of operations. If any licensor fails to adequately maintain or protect their trademarks, engages in behaviour with respect to the licensed marks that would cause us reputational harm, or if any of the brands licensed to us violates the trademark rights of a third-party or are deemed to be invalid or unenforceable, we could experience a significant downturn in that brand's business, negatively affecting our sales and results of operations, and we may be required to expend significant amounts on public relations, advertising, legal, and other related costs. In addition, if any of these licensors choose to cease licensing these brands to us in the future, our sales and results of operations would be negatively affected.

Our ability to protect our intellectual property rights

Our trademarks are important to our marketing efforts and have substantial value. We aggressively protect these trademarks from infringement and dilution through appropriate measures including court actions and administrative proceedings; however, the actions we have taken to establish and protect our trademarks and other intellectual property may not be adequate. We cannot be certain that others will not imitate our products or infringe our intellectual property rights. Infringement or counterfeiting of our products could diminish the value of our brands or otherwise negatively affect our business. In addition, unilateral actions in the United States or other countries, such as changes to or the repeal of laws recognizing trademark or other intellectual property rights, could have an impact on our ability to enforce those rights.

From time to time we are involved in opposition and cancellation proceedings with respect to our intellectual property, which could affect its validity, enforceability, and use. The value of our intellectual property could diminish if others assert rights in, or ownership of, or oppose our applications to register our trademarks and other intellectual property rights. In some cases, there may be trademark owners who have prior rights to our trademarks or to similar trademarks, which could harm our ability to sell products under or register such trademarks. In addition, we have registered trademarks in certain foreign jurisdictions and the laws of foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States or Canada. We do not own trademark rights to all of our brands in all jurisdictions, which may limit the future sales growth of certain branded products in such jurisdictions. Furthermore, actions we have taken to protect our intellectual property rights may not be adequate to prevent others from seeking to invalidate our trademarks or block sales of our products as a violation of the trademarks and intellectual property rights of others.

In some cases, litigation may be necessary to protect our trademarks and other intellectual property rights, to enforce our rights or defend against claims by third parties alleging that we infringe, dilute, misappropriate, or otherwise violate third-party trademark or other intellectual property rights. Any litigation or claims brought by or against us, whether with or without merit, and whether successful or not, could result in substantial costs and diversion of our resources, which could have a negative effect on our business, financial condition, results of operation and cash flows. Any intellectual property litigation claims against us could result in the loss or compromise of our intellectual property rights, could subject us to significant liabilities, require us to seek licenses on unfavorable terms, if available at all, and/or require us to rebrand our products and services, any of which could negatively affect our business, results of operations, financial condition, and cash flows.

We rely significantly on our information systems for our business operations

We place significant reliance on our information systems. Our information systems consist of a full range of supply chain and financial systems. The systems include applications related to product development, planning, manufacturing, distribution, sales, human resources, and financial reporting. We depend on our information systems to operate our business and make key decisions. These activities include forecasting demand, purchasing raw materials and supplies, designing products, scheduling and managing production, selling to our customers, responding to customer, supplier and other inquiries, managing inventories, shipping goods on a timely basis, managing our employees, and summarizing results. There can be no assurance that we will not experience operational problems with our information systems as a result of system failures, viruses, information security incidents, cyber security incidents, disasters or other causes, or in connection with upgrades to our systems or implementation of new systems. In addition, there can be no assurance that we will be able to timely modify or adapt our systems to meet evolving requirements for our business. Any material disruption or slowdown of our systems could cause operational delays and other impacts that could negatively affect our business and results of operations.

We may be negatively impacted by data security and privacy breaches

Our business involves the regular collection and use of sensitive and confidential information regarding employees, customers, business partners, vendors, and other third parties. These activities are highly regulated and privacy and information security laws are complex and constantly changing. Non-compliance with these laws and regulations can lead to legal liability. Furthermore, an information technology system failure or non-availability, cyber security incident, or breach of systems could disrupt our operations, cause the loss of, corruption of, or unauthorized access to business information and data, compromise confidential information, or expose us to regulatory investigation, litigation, or contractual penalties. Divergent technology systems inherited through business acquisitions increase complexity and potential exposure. We seek to detect and investigate all security incidents and to prevent their occurrence or recurrence. We continue to invest in and improve our threat protection, detection and mitigation policies, procedures and controls, and work on increased awareness and enhanced protections against cyber security threats. However, given the highly evolving nature and sophistication of these security threats or disruptions and their increased frequency, the impact of any future incident cannot be easily predicted or mitigated, and the costs related to such threats and disruptions may not be fully insured or indemnified by other means.

We depend on key management and our ability to attract and/or retain key personnel

Our success depends upon the continued contributions of our key management, some of whom have unique talents and experience and would be difficult to replace in the short term. The loss or interruption of the services of a key executive could have a negative effect on our business during the transitional period that would be required to restructure the organization or for a successor to assume the responsibilities of the key management position. Our future success will also depend on our ability to attract and retain key managers, sales people, and other personnel. We may not be able to attract or retain these employees, which could negatively affect our business.

17.0 DEFINITION AND RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

We use non-GAAP measures to assess our operating performance and financial condition. The terms and definitions of the non-GAAP measures used in this MD&A and a reconciliation of each non-GAAP measure to the most directly comparable GAAP measure are provided below. The non-GAAP measures are presented on a consistent basis for all periods presented in this MD&A, except for those measures impacted by the initial adoption of IFRS 16, Leases, as discussed below. These non-GAAP measures do not have any standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

Adjusted net earnings and adjusted diluted EPS

Adjusted net earnings are calculated as net earnings before restructuring and acquisition-related costs, income taxes relating to restructuring and acquisition-related actions, income taxes related to the re-assessment of the probability of realization of previously recognized or de-recognized deferred income tax assets, and income taxes relating to the revaluation of deferred income tax assets and liabilities as a result of statutory income tax rate changes in the countries in which we operate. Adjusted net earnings also excludes the impact of the Company's decision in the fourth quarter of fiscal 2019 to implement a strategic initiative to significantly reduce its imprintable product line stock-keeping unit (SKU) count, by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands. This initiative is aimed at simplifying the Company's product portfolio and reducing complexity in its manufacturing and warehouse distribution activities. The impact of this strategic initiative includes inventory write-downs and a sales return allowance for anticipated product returns related to discontinued SKUs. Adjusted diluted EPS is calculated as adjusted net earnings divided by the diluted weighted average number of common shares outstanding. The Company uses adjusted net earnings and adjusted diluted EPS to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. The Company excludes these items because they affect the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Excluding these items does not imply they are necessarily non-recurring.

	Three months ended		Twelve months ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
<i>(in \$ millions, except per share amounts)</i>				
Net earnings	32.5	59.6	259.8	350.8
Adjustments for:				
Restructuring and acquisition-related costs	16.0	21.7	47.3	34.2
Impact of strategic product line initiative ⁽¹⁾	55.0	—	55.0	—
Income tax (recovery) expense relating to the above-noted adjustments	(0.9)	0.5	(3.3)	—
Income tax (recovery) expense related to the revaluation of deferred income tax assets and liabilities ⁽²⁾	(19.2)	7.1	(19.2)	8.1
Adjusted net earnings	83.4	88.9	339.6	393.1
Basic EPS	0.16	0.29	1.27	1.66
Diluted EPS	0.16	0.29	1.27	1.66
Adjusted diluted EPS	0.41	0.43	1.66	1.86

(1) Includes \$47.6 million of inventory write-downs included in cost of sales and the \$7.4 million gross profit impact of a sales return allowance for anticipated product returns related to discontinued SKUs (which reduced net sales by \$19.0 million and cost of sales by \$11.6 million).

(2) For fiscal 2019, the amount includes an income tax recovery of \$19.2 million pursuant to the recognition of previously de-recognized (in fiscal 2018 and fiscal 2017 pursuant to the organizational realignment plan) deferred income tax assets as a result of a re-assessment of the probability of realization of such deferred income tax assets. For fiscal 2018, the amount includes an increase to deferred income tax expense of \$6.1 million pursuant to the Company's organizational realignment plan in which it reassessed the recoverability of its deferred income tax assets in the respective jurisdictions affected, and an increase to deferred income tax expense of \$2.0 million related to the impact of statutory income tax rate changes primarily related to the impact of U.S. tax reform, reflecting the reduction in the U.S. statutory federal tax rate that took effect in fiscal 2018.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Adjusted gross profit and adjusted gross margin

Adjusted gross profit is presented for the first time and is calculated as gross profit excluding the impact of the Company's decision in the fourth quarter of fiscal 2019 to implement a strategic initiative to significantly reduce its imprintable product line stock-keeping unit (SKU) count, by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands. This initiative is aimed at simplifying the Company's product portfolio and reducing complexity in its manufacturing and warehouse distribution activities. The impact of this strategic initiative includes inventory write-downs and a sales return allowance for anticipated product returns related to discontinued SKUs. Adjusted gross margin is calculated as adjusted gross profit divided by net sales excluding the sales return allowance for anticipated product returns related to discontinued SKUs. The Company uses adjusted gross profit and adjusted gross margin to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. The Company excludes these items because they affect the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Excluding these items does not imply they are necessarily non-recurring.

	Three months ended		Twelve months ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
<i>(in \$ millions, or otherwise indicated)</i>				
Gross profit ⁽¹⁾	118.2	195.4	704.5	806.0
Adjustment for:				
Impact of strategic product line initiative ⁽²⁾	55.0	—	55.0	—
Adjusted gross profit ⁽¹⁾	173.2	195.4	759.5	806.0
Gross margin	17.9%	26.3%	24.9%	27.7%
Adjusted gross margin ⁽³⁾	25.6%	26.3%	26.7%	27.7%

(1) Gross profit and adjusted gross profit for the three and twelve months ended December 29, 2019 were positively impacted by \$0.3 million and \$1.2 million, respectively, due to the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the fiscal year ended December 29, 2019. Prior year gross profit and adjusted gross profit were not impacted.

(2) Includes \$47.6 million of inventory write-downs included in cost of sales and the \$7.4 million gross profit impact of a sales return allowance for anticipated product returns related to discontinued SKUs (which reduced net sales by \$19.0 million and cost of sales by \$11.6 million).

(3) Calculated as adjusted gross profit divided by net sales excluding the sales return allowance for anticipated product returns related to discontinued SKUs.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Adjusted operating income and adjusted operating margin

Adjusted operating income is calculated as operating income before restructuring and acquisition-related costs. Adjusted operating income also excludes the impact of the Company's decision in the fourth quarter of fiscal 2019 to implement a strategic initiative to significantly reduce its imprintable product line stock-keeping unit (SKU) count, by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands. This initiative is aimed at simplifying the Company's product portfolio and reducing complexity in its manufacturing and warehouse distribution activities. The impact of this strategic initiative includes inventory write-downs and a sales return allowance for anticipated product returns related to discontinued SKUs. Adjusted operating margin is calculated as adjusted operating income divided by net sales excluding the sales return allowance for anticipated product returns related to discontinued SKUs. Management uses adjusted operating income and adjusted operating margin to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. The Company excludes these items because they affect the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Excluding these items does not imply they are necessarily non-recurring.

<i>(in \$ millions, or otherwise indicated)</i>	Three months ended		Twelve months ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
Operating income ⁽¹⁾	24.3	78.2	289.0	403.2
Adjustment for:				
Restructuring and acquisition-related costs	16.0	21.7	47.3	34.2
Impact of strategic product line initiative ⁽²⁾	55.0	—	55.0	—
Adjusted operating income ⁽¹⁾	95.3	99.9	391.3	437.4
Operating margin	3.7%	10.5%	10.2%	13.9%
Adjusted operating margin ⁽³⁾	14.1%	13.5%	13.8%	15.0%

(1) Operating income and adjusted operating income for the three and twelve months ended December 29, 2019 were positively impacted by \$0.7 million and \$3.1 million, respectively, due to the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the fiscal year ended December 29, 2019. Prior year operating income and adjusted operating income were not impacted.

(2) Includes \$47.6 million of inventory write-downs included in cost of sales and the \$7.4 million gross profit impact of a sales return allowance for anticipated product returns related to discontinued SKUs (which reduced net sales by \$19.0 million and cost of sales by \$11.6 million).

(3) Calculated as adjusted operating income divided by net sales excluding the sales return allowance for anticipated product returns related to discontinued SKUs.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Adjusted EBITDA

Adjusted EBITDA is calculated as earnings before financial expenses, income taxes, and depreciation and amortization, and excludes the impact of restructuring and acquisition-related costs. Adjusted EBITDA also excludes the impact of the Company's decision in the fourth quarter of fiscal 2019 to implement a strategic initiative to significantly reduce its imprintable product line stock-keeping unit (SKU) count, by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands. This initiative is aimed at simplifying the Company's product portfolio and reducing complexity in its manufacturing and warehouse distribution activities. The impact of this strategic initiative includes inventory write-downs and a sales return allowance for anticipated product returns related to discontinued SKUs. The Company uses adjusted EBITDA, among other measures, to assess the operating performance of its business. The Company also believes this measure is commonly used by investors and analysts to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement. The Company excludes depreciation and amortization expenses, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors. Excluding these items does not imply they are necessarily non-recurring.

<i>(in \$ millions)</i>	Three months ended		Twelve months ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
Net earnings	32.5	59.6	259.8	350.8
Restructuring and acquisition-related costs	16.0	21.7	47.3	34.2
Impact of strategic product line initiative ⁽¹⁾	55.0	—	55.0	—
Depreciation and amortization	33.0	38.0	156.8	158.1
Financial expenses, net	9.5	8.7	39.2	31.0
Income tax (recovery) expense	(17.8)	10.0	(10.0)	21.4
Adjusted EBITDA ⁽²⁾	128.2	138.0	548.1	595.5

(1) Includes \$47.6 million of inventory write-downs included in cost of sales and the \$7.4 million gross profit impact of a sales return allowance for anticipated product returns related to discontinued SKUs (which reduced net sales by \$19.0 million and cost of sales by \$11.6 million).

(2) Adjusted EBITDA for the three and twelve months ended December 29, 2019 was positively impacted by \$4.3 million and \$16.4 million (consisting of depreciation of right-of-use assets and interest accretion on discounted lease obligations), respectively, due to the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the fiscal year ended December 29, 2019. Prior year adjusted EBITDA was not impacted.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Free cash flow

Free cash flow is defined as cash from operating activities, less cash flow used in investing activities excluding business acquisitions. The Company considers free cash flow to be an important indicator of the financial strength and liquidity of its business, and it is a key metric which indicates how much cash is available after capital expenditures to repay debt, to pursue business acquisitions, and/or to redistribute to its shareholders. The Company believes this measure is commonly used by investors and analysts when valuing a business and its underlying assets.

<i>(in \$ millions)</i>	2019	2018
Cash flows from operating activities	361.0	538.5
Cash flows used in investing activities	(135.8)	(110.9)
Adjustment for:		
Business acquisitions	1.3	1.3
Free cash flow ⁽¹⁾	226.5	428.9

(1) Free cash flow for the year ended December 29, 2019 increased by \$13.5 million, due to the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the fiscal year ended December 29, 2019. Prior year free cash flow was not impacted.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Total indebtedness and net indebtedness

Total indebtedness is defined as the total bank indebtedness, long-term debt (including any current portion), and lease obligations (including any current portion), and net indebtedness is calculated as total indebtedness net of cash and cash equivalents. The Company considers total indebtedness and net indebtedness to be important indicators of the financial leverage of the Company. The Company has included lease obligations in total indebtedness and net indebtedness beginning in fiscal 2019, consistent with the adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the year ended December 29, 2019. Comparative periods have not been revised and therefore may not be directly comparable.

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018
Long-term debt and total bank indebtedness	845.0	669.0
Lease obligations	81.5	—
Total indebtedness	926.5	669.0
Cash and cash equivalents	(64.1)	(46.7)
Net indebtedness	862.4	622.3

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Net debt leverage ratio

The net debt leverage ratio is defined as the ratio of net indebtedness to pro-forma adjusted EBITDA for the trailing twelve months. The pro-forma adjusted EBITDA for the trailing twelve months reflects business acquisitions made during the period, as if they had occurred at the beginning of the trailing twelve month period. The Company has set a fiscal year end net debt leverage target ratio of one to two times pro-forma adjusted EBITDA. The Company uses and believes that certain investors and analysts use the net debt leverage ratio to measure the financial leverage of the Company.

<i>(in \$ millions, or otherwise indicated)</i>	December 29, 2019	December 30, 2018
Adjusted EBITDA for the trailing twelve months	548.1	595.5
Adjustment for:		
Business acquisitions	—	—
Pro-forma adjusted EBITDA for the trailing twelve months	548.1	595.5
Net indebtedness	862.4	622.3
Net debt leverage ratio ⁽¹⁾	1.6	1.0

(1) The net debt leverage ratio as at December 29, 2019 increased by approximately 0.1 due to the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the fiscal year ended December 29, 2019. The prior year net debt leverage ratio was not impacted.

Certain minor rounding variances exist between the consolidated financial statements and this summary.

Return on net assets

Return on net assets (RONA) is defined as the ratio of adjusted net earnings, excluding net financial expenses and the amortization of intangible assets (excluding software) net of income tax recoveries related thereto, to average net assets for the last five quarters. Net assets are defined as the sum of total assets, excluding cash and cash equivalents, net deferred income taxes, and the accumulated amortization of intangible assets (excluding software), less total current liabilities excluding the current portion of lease obligations. The Company uses RONA as a performance indicator to measure the efficiency of its invested capital.

<i>(in \$ millions)</i>	December 29, 2019	December 30, 2018
Average total assets	3,254.1	3,084.0
Average cash and cash equivalents	(59.6)	(48.9)
Average net deferred income taxes	(2.0)	—
Average accumulated amortization of intangible assets, excluding software	159.4	138.6
Average total current liabilities, excluding the current portion of lease obligations	(364.0)	(299.5)
Average net assets	2,987.9	2,874.2

<i>(in \$ millions, or otherwise indicated)</i>	2019	2018
Adjusted net earnings	339.6	393.1
Financial expenses, net (nil income taxes in both years)	39.2	31.0
Amortization of intangible assets, excluding software (net of nil income taxes in both years)	17.3	22.9
Return	396.1	447.0
RONA ⁽¹⁾	13.3%	15.6%

(1) The RONA as at December 29, 2019 decreased by approximately 0.2% due to the initial adoption of IFRS 16, Leases as described in note 2(c) to the audited consolidated financial statements as at and for the fiscal year ended December 29, 2019. The prior year RONA was not impacted.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality, and for maintaining a system of internal controls over financial reporting as described in "Management's annual report on internal control over financial reporting" included in Management's Discussion and Analysis for the fiscal year ended December 29, 2019. Management is also responsible for the preparation and presentation of other financial information included in the 2019 Annual Report and its consistency with the consolidated financial statements.

The Audit and Finance Committee, which is appointed annually by the Board of Directors and comprised exclusively of independent directors, meets with management as well as with the independent auditors and internal auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit and Finance Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The Audit and Finance Committee considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditors.

The consolidated financial statements have been independently audited by KPMG LLP, on behalf of the shareholders, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company. In addition, our auditors have issued a report on the Company's internal controls over financial reporting as of December 29, 2019. KPMG LLP has direct access to the Audit and Finance Committee of the Board of Directors.

(Signed: Glenn J. Chamandy)

Glenn J. Chamandy
President and Chief Executive Officer

(Signed: Rhodri J. Harries)

Rhodri J. Harries
Executive Vice-President,
Chief Financial and Administrative Officer

February 19, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Gildan Activewear Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Gildan Activewear Inc. (the Company) as of December 29, 2019 and December 30, 2018, the related consolidated statements of earnings and comprehensive income, changes in equity, and cash flows for the years ended December 29, 2019 and December 30, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2019, and December 30, 2018 and the financial performance and its cash flows for the years ended December 29, 2019 and December 30, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 19, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2(c) to the consolidated financial statements, the Company has changed its method of accounting for leases as of December 31, 2018, due to the adoption of IFRS 16, Leases using a modified retrospective transition approach.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment and allocation of inventories costs

As discussed in Notes 3(e) and 7 to the consolidated financial statements, the inventories balance as of December 29, 2019 was \$1,052 million, of which work in process and finished goods represented \$899 million. Inventories are stated at the lower of cost, determined on a first-in first-out basis, and net realizable value. As the Company manages its day-to-day production costs and inventories using a standard costing system, variances arise between these standard costs and the actual manufacturing costs. Adjustments are therefore required at period end to

measure inventories at their actual cost. This involves accumulating manufacturing variances at each stage of the Company's vertically-integrated manufacturing process and identifying abnormal costs that need to be expensed immediately. The Company then applies a variance deferral factor, based primarily on the number of days of inventories on hand, to estimate the variances to be included in ending inventories. The determination of the variance deferral factor involves estimation. The combination of automated and non-automated systems and processes using data obtained from different geographical locations results in complexity in accumulation of manufacturing costs and in the identification of abnormal costs.

We identified the assessment of costs directly related to the conversion of raw materials to finished goods and the allocation of manufacturing variances to the carrying value of inventories as a critical audit matter. A higher degree of auditor judgment and audit effort was required in testing the costs included in the carrying value of inventories and evaluating the variance deferral factor used in allocating the manufacturing variances given the complexity of the process.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's inventory costing process, including controls related to: (1) identifying costs, including abnormal costs, that do not directly relate to the conversion of raw materials to finished goods; and (2) establishing the variance deferral factor. We tested the eligibility of costs for recognition in inventories by: (1) assessing the nature of costs included in inventories by inspecting a sample of transactions recorded as manufacturing costs and tracing them to underlying documentation; (2) analysing the quarterly manufacturing variances and the trend in the monthly manufacturing costs to identify variations from pre-determined expectations that may indicate the existence of non-manufacturing or abnormal costs; and (3) assessing changes in production activity to identify abnormal costs. We assessed the variance deferral factor based on days of inventory on hand, which included testing a selection of the inputs to the calculation.

Evaluation of net realizable value of finished goods inventories

As discussed in Notes 3(e), 3(dd) and 7 to the consolidated financial statements, the inventories balance as of December 29, 2019 was \$1,052 million of which \$824 million relates to finished goods inventories. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price of finished goods in normal sales channels, or where applicable, liquidation channels, less estimated costs of completion and selling expenses. Discontinued, including inventories affected by the strategic product line initiative, damaged, and excess finished goods inventories are carried at the net realizable value, as those inventories are sold below cost in liquidation channels. In determining net realizable value of finished goods, the Company considers recent recovery rates and current market conditions in these channels. There is estimation uncertainty in relation to the identification of excess finished goods inventories which are based on certain criteria, and in the expected selling prices used in establishing net realizable values for the excess and discontinued finished goods. For inventories subject to the strategic product line initiative, there is also estimation uncertainty in relation to the quantities that the Company will be able to sell through its normal sales channels at a selling price above cost.

We identified the evaluation of net realizable value of finished goods inventories to be a critical audit matter. A higher degree of auditor judgment was required to evaluate the determination of the (1) excess finished goods inventories, (2) the expected selling prices used in the establishing net realizable value for excess and discontinued finished goods, and (3) for inventories subject to the strategic product line initiative, the quantities expected to be sold through normal sales channels.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's inventory valuation process, including controls related to the determination of the (1) excess finished goods inventories, (2) expected selling prices and (3) inventory quantities affected by the strategic product line initiative expected to be sold through normal sales channels. We evaluated the criteria used by the Company to identify excess finished goods inventories by assessing the consistent application of the criteria as compared to prior years and in relation to current market conditions and business plans. We also determined whether inventory that met these criteria had been identified by the Company as excess. We compared the Company's estimate of the expected selling price used in establishing net realizable value for excess and discontinued finished goods to historical selling prices. We evaluated the Company's ability to accurately forecast customer demand and expected selling prices used in the determination of net realizable value of finished goods inventories by: (1) examining the write-downs of finished goods inventories which were not stated at net realizable value at the end of the preceding year; and (2) comparing each product's expected selling price used in the prior year determination of net realizable value to the current year's actual average selling price. In addition, for a selection of finished goods inventory items, we inspected recent sales transactions to assess whether the selling price, net of selling costs, was greater than the carrying amount of the finished goods sold. For inventories subject to the

strategic product line initiative, we compared the Company's estimate of quantities expected to be sold through normal sales channels to historical quantities sold for those inventories.

Assessment of the carrying value of goodwill and indefinite life intangible assets in the Hosiery cash generating unit ("CGU")

As discussed in Notes 3(dd) and 10 to the consolidated financial statements, the goodwill and indefinite life intangible asset balances as of December 29, 2019 were in total \$451 million, of which \$151 million related to the Hosiery CGU. The Company performs impairment testing on an annual basis or whenever events or changes in circumstances indicate that the carrying value of a reporting unit might exceed its recoverable amount, which is determined using the fair value less costs of disposal method. The Company's assessment of the recoverable amount incorporates assumptions including estimated sales volumes, selling prices, input costs and selling, general and administrative ("SG&A") expenses in determining forecasted earnings before financial expenses, income taxes, depreciation and amortization, and restructuring and acquisition-related costs ("adjusted EBITDA") and the multiple applied to the forecasted adjusted EBITDA ("adjusted EBITDA multiple").

We identified the assessment of the carrying value of goodwill and indefinite life intangible assets in the Hosiery CGU as a critical audit matter. There was a higher degree of auditor judgment required to evaluate the above noted assumptions used in determining the recoverable amount. The sensitivity of reasonably possible changes to those assumptions could have a significant impact on the determination of the recoverable amount of the Hosiery CGU and the Company's assessment of impairment.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's impairment assessment process, including controls related to (1) determining the forecasted adjusted EBITDA and the assumptions underlying its determination; and (2) identifying comparable peer companies and determining the forecasted adjusted EBITDA multiple. We evaluated the forecasted adjusted EBITDA for the Hosiery CGU by comparing the Company's historical adjusted EBITDA forecasts to actual results and by examining the historical trend analysis of both increases and decreases in actual revenue, gross margin and SG&A expenses as compared to the forecasted amounts.

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

- evaluating the adjusted EBITDA multiple used by the Company by comparing to publicly available EBITDA multiples for comparable entities; and
- assessing the recoverable amount by developing a range of recoverable amounts for the Hosiery CGU using possible forecasted adjusted EBITDA amounts and adjusted EBITDA multiples, and comparing to the recoverable amount determined by the Company.



We have served as the Company's auditor since fiscal 1996.

Montreal, Canada

February 19, 2020

*CPA auditor, CA, public accountancy permit No. A120220

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Gildan Activewear Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Gildan Activewear Inc.'s ("the Company") internal control over financial reporting as of December 29, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of December 29, 2019 and December 30, 2018, the related consolidated statements of earnings and comprehensive income, changes in equity, and cash flows for the years ended December 29, 2019 and December 30, 2018 and the related notes (collectively, the consolidated financial statements), and our report dated February 19, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting" included in Management's Discussion and Analysis for the year ended December 29, 2019. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The image shows the handwritten signature "KPMG LLP" in black ink. The letters are slanted and connected, with a horizontal line underneath the signature.

Montreal, Canada

February 19, 2020

*CPA auditor, CA, public accountancy permit No. A120220

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

GILDAN ACTIVEWEAR INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 (in thousands of U.S. dollars)

	December 29, 2019	December 30, 2018
Current assets:		
Cash and cash equivalents (note 5)	\$ 64,126	\$ 46,657
Trade accounts receivable (note 6)	320,931	317,159
Income taxes receivable	—	1,689
Inventories (note 7)	1,052,052	940,029
Prepaid expenses, deposits and other current assets	77,064	77,377
Total current assets	1,514,173	1,382,911
Non-current assets:		
Property, plant and equipment (note 8)	994,980	990,475
Right-of-use assets (note 9(a))	73,539	—
Intangible assets (note 10)	383,864	393,573
Goodwill (note 10)	227,865	227,362
Deferred income taxes (note 18)	9,917	—
Other non-current assets	6,732	10,275
Total non-current assets	1,696,897	1,621,685
Total assets	\$ 3,211,070	\$ 3,004,596
Current liabilities:		
Accounts payable and accrued liabilities	\$ 406,631	\$ 346,985
Income taxes payable	1,255	—
Current portion of lease obligations (note 9(b))	14,518	—
Total current liabilities	422,404	346,985
Non-current liabilities:		
Long-term debt (note 11)	845,000	669,000
Lease obligations (note 9(b))	66,982	—
Deferred income taxes (note 18)	—	12,623
Other non-current liabilities (note 12)	42,190	39,916
Total non-current liabilities	954,172	721,539
Total liabilities	1,376,576	1,068,524
Commitments, guarantees and contingent liabilities (note 23)		
Equity (note 13):		
Share capital	174,218	159,858
Contributed surplus	32,769	32,490
Retained earnings	1,628,042	1,740,342
Accumulated other comprehensive income	(535)	3,382
Total equity attributable to shareholders of the Company	1,834,494	1,936,072
Total liabilities and equity	\$ 3,211,070	\$ 3,004,596

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

(Signed: Glenn J. Chamandy)

Glenn J. Chamandy
 Director

(Signed: Russell Goodman)

Russell Goodman
 Director

GILDAN ACTIVEWEAR INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
 Fiscal years ended December 29, 2019 and December 30, 2018
 (in thousands of U.S. dollars, except per share data)

	2019	2018
Net sales (note 25)	\$ 2,823,901	\$ 2,908,565
Cost of sales	2,119,440	2,102,612
Gross profit	704,461	805,953
Selling, general and administrative expenses (note 16(a))	340,487	364,912
Impairment of trade accounts receivable (note 6)	27,652	3,634
Restructuring and acquisition-related costs (note 17)	47,329	34,228
Operating income	288,993	403,179
Financial expenses, net (note 14(c))	39,168	31,045
Earnings before income taxes	249,825	372,134
Income tax (recovery) expense (note 18)	(9,984)	21,360
Net earnings	259,809	350,774
Other comprehensive income (loss), net of related income taxes:		
Cash flow hedges (note 14(d))	(3,917)	(10,158)
Actuarial loss on employee benefit obligations (note 12(a))	(1,296)	(1,694)
	(5,213)	(11,852)
Comprehensive income	\$ 254,596	\$ 338,922
Earnings per share (note 19):		
Basic	\$ 1.27	\$ 1.66
Diluted	\$ 1.27	\$ 1.66

See accompanying notes to consolidated financial statements.

GILDAN ACTIVEWEAR INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 Fiscal years ended December 29, 2019 and December 30, 2018
 (in thousands or thousands of U.S. dollars)

	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
	Number	Amount				
Balance, December 31, 2017	219,199	\$ 159,170	\$ 25,208	\$ 13,540	\$ 1,853,457	\$ 2,051,375
Adjustments relating to initial adoption of new accounting standards (note 2(c))	—	—	—	—	(1,515)	(1,515)
Adjusted balance, January 1, 2018	219,199	159,170	25,208	13,540	1,851,942	2,049,860
Share-based compensation	—	—	19,351	—	—	19,351
Shares issued under employee share purchase plan	57	1,722	—	—	—	1,722
Shares issued pursuant to exercise of stock options	110	2,412	(729)	—	—	1,683
Shares issued or distributed pursuant to vesting of restricted share units	226	5,952	(12,094)	—	—	(6,142)
Shares repurchased for cancellation (note 13(d))	(12,635)	(9,231)	—	—	(358,298)	(367,529)
Share repurchases for settlement of non-Treasury RSUs (note 13(e))	(225)	(167)	—	—	(7,062)	(7,229)
Dividends declared	—	—	754	—	(95,320)	(94,566)
Transactions with shareholders of the Company recognized directly in equity	(12,467)	688	7,282	—	(460,680)	(452,710)
Cash flow hedges (note 14(d))	—	—	—	(10,158)	—	(10,158)
Actuarial loss on employee benefit obligations (note 12(a))	—	—	—	—	(1,694)	(1,694)
Net earnings	—	—	—	—	350,774	350,774
Comprehensive income	—	—	—	(10,158)	349,080	338,922
Balance, December 30, 2018	206,732	\$ 159,858	\$ 32,490	\$ 3,382	\$ 1,740,342	\$ 1,936,072
Adjustments relating to initial adoption of new accounting standards (note 2(c))	—	—	—	—	(2,176)	(2,176)
Adjusted balance, December 31, 2018	206,732	159,858	32,490	3,382	1,738,166	1,933,896
Share-based compensation	—	—	16,115	—	—	16,115
Shares issued under employee share purchase plan	50	1,651	—	—	—	1,651
Shares issued pursuant to exercise of stock options	443	12,198	(3,374)	—	—	8,824
Shares issued or distributed pursuant to vesting of restricted share units	267	7,415	(13,416)	—	—	(6,001)
Shares repurchased for cancellation (note 13(d))	(8,218)	(6,738)	—	—	(250,495)	(257,233)
Share repurchases for settlement of non-Treasury RSUs (note 13(e))	(262)	(166)	—	—	(6,842)	(7,008)
Dividends declared	—	—	954	—	(111,300)	(110,346)
Transactions with shareholders of the Company recognized directly in equity	(7,720)	14,360	279	—	(368,637)	(353,998)
Cash flow hedges (note 14(d))	—	—	—	(3,917)	—	(3,917)
Actuarial loss on employee benefit obligations (note 12(a))	—	—	—	—	(1,296)	(1,296)
Net earnings	—	—	—	—	259,809	259,809
Comprehensive income	—	—	—	(3,917)	258,513	254,596
Balance, December 29, 2019	199,012	\$ 174,218	\$ 32,769	\$ (535)	\$ 1,628,042	\$ 1,834,494

See accompanying notes to consolidated financial statements.

GILDAN ACTIVEWEAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Fiscal years ended December 29, 2019 and December 30, 2018
 (in thousands of U.S. dollars)

	2019	2018
Cash flows from (used in) operating activities:		
Net earnings	\$ 259,809	\$ 350,774
Adjustments to reconcile net earnings to cash flows from operating activities (note 21(a))	175,548	202,255
	435,357	553,029
Changes in non-cash working capital balances:		
Trade accounts receivable	(3,515)	(79,707)
Income taxes	2,969	2,115
Inventories	(115,082)	2,182
Prepaid expenses, deposits and other current assets	(8,320)	(13,807)
Accounts payable and accrued liabilities	49,621	74,732
Cash flows from operating activities	361,030	538,544
Cash flows from (used in) investing activities:		
Purchase of property, plant and equipment	(128,676)	(107,654)
Purchase of intangible assets	(11,558)	(17,566)
Business acquisitions	(1,300)	(1,303)
Proceeds on disposal of property, plant and equipment	5,783	15,649
Cash flows used in investing activities	(135,751)	(110,874)
Cash flows from (used in) financing activities:		
Increase in amounts drawn under revolving long-term bank credit facility	176,000	39,000
Payment of lease obligations	(13,534)	—
Dividends paid	(110,346)	(94,566)
Proceeds from the issuance of shares	10,318	3,243
Repurchase and cancellation of shares (note 13(d))	(257,233)	(367,529)
Share repurchases for settlement of non-Treasury RSUs (note 13(e))	(7,008)	(7,229)
Withholding taxes paid pursuant to the settlement of non-Treasury RSUs	(6,001)	(6,142)
Cash flows used in financing activities	(207,804)	(433,223)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(6)	(585)
Net increase (decrease) in cash and cash equivalents during the fiscal year	17,469	(6,138)
Cash and cash equivalents, beginning of fiscal year	46,657	52,795
Cash and cash equivalents, end of fiscal year	\$ 64,126	\$ 46,657
Cash paid (included in cash flows from operating activities):		
Interest	\$ 33,149	\$ 25,530
Income taxes, net of refunds	10,796	9,688

Supplemental disclosure of cash flow information (note 21)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal years ended December 29, 2019 and December 30, 2018

(Tabular amounts in thousands or thousands of U.S. dollars except per share data, unless otherwise indicated)

1. REPORTING ENTITY:

Gildan Activewear Inc. (the "Company" or "Gildan") is domiciled in Canada and is incorporated under the *Canada Business Corporations Act*. Its principal business activity is the manufacture and sale of activewear, hosiery and underwear. The Company's fiscal year ends on the Sunday closest to December 31 of each year.

The address of the Company's registered office is 600 de Maisonneuve Boulevard West, Suite 3300, Montreal, Quebec. These consolidated financial statements are as at and for the fiscal years ended December 29, 2019 and December 30, 2018 and include the accounts of the Company and its subsidiaries. The Company is a publicly listed entity and its shares are traded on the Toronto Stock Exchange and New York Stock Exchange under the symbol GIL.

2. BASIS OF PREPARATION:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements for the fiscal year ended December 29, 2019 were authorized for issuance by the Board of Directors of the Company on February 19, 2020.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following items in the consolidated statements of financial position:

- Derivative financial instruments which are measured at fair value;
- Employee benefit obligations related to defined benefit plans which are measured at the present value of the defined benefit obligations, net of advance payments made to employees thereon;
- Liabilities for cash-settled share-based payment arrangements which are measured at fair value, and equity-classified share-based payment arrangements which are measured at fair value at grant date pursuant to IFRS 2, Share-based payment;
- Discontinued, damaged, and excess finished inventories which are carried at the net realizable value;
- Provisions for decommissioning, site restoration costs, and onerous contracts which are measured at the present value of the expenditures expected to be required to settle the obligation; and
- Identifiable assets acquired and liabilities assumed in connection with a business combination which are initially measured at fair value.

These consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency.

2. BASIS OF PREPARATION (continued):

(c) Initial application of new or amended accounting standards:

During the year ended December 29, 2019, the Company adopted the following new or amended accounting standards:

Leases

IFRS 16, Leases, specifies how to recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize a right-of-use ("ROU") asset representing its right to use the underlying asset and a liability representing its obligation to make lease payments ("lease obligation"), for all leases unless the Company elects to exclude leases when the lease term is twelve months or less, or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Effective December 31, 2018 (date of initial application), the Company adopted IFRS 16 using the modified retrospective transition approach. Accordingly, comparative figures as at and for the year ended December 30, 2018 have not been restated and continue to be reported under IAS 17 and IFRIC 4. Please refer to note 3 (cc) for the Company's updated accounting policy for leases.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or modified on or after December 31, 2018.

At transition, the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17: applied a single discount rate to a portfolio of leases with similar characteristics; applied the exemption not to recognize ROU assets and liabilities for leases with a remaining lease term less than 12 months; used hindsight when determining the lease term if the contract contained options to extend or terminate the lease; and relied on previous assessments of whether leases are onerous in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, as an alternative to performing an impairment review.

When applying the modified retrospective transition approach, for leases previously classified as operating leases under IAS 17 and IFRIC 4, on initial application, a lessee is permitted to measure the ROU asset, on a lease-by-lease basis, using one of two methods: (1) as if IFRS 16 had always been applied, using the incremental borrowing rate at the date of initial application; or (2) at an amount equal to the lease liability (subject to certain adjustments). The Company applied the first option to certain leases, which resulted in a lower carrying amount of the ROU asset at the date of initial application as compared to the lease liability, for those leases. For the remainder of the leases, the Company recognized the ROU assets based on the corresponding lease liability. In addition, \$1.9 million of deferred lease credits (relating to lease inducements) that were recorded in accounts payable and accrued liabilities were derecognized with a corresponding transition adjustment to retained earnings on transition date, as a result of the adoption of IFRS 16, and \$1.2 million of prepaid rent that was recorded in prepaid expenses, deposits and other current assets on the consolidated statement of financial position as at December 30, 2018 was transferred to the recognized ROU asset.

As a result of relying on a previous assessment of whether leases are onerous in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application as an alternative to performing an impairment review, a lessee adjusts the carrying amount of the ROU asset at the date of initial application by the carrying amount of the provision for onerous leases recognized in the statement of financial position immediately before the date of initial application. The Company applied this practical expedient at the date of initial application, resulting in a reduction of the provisions for onerous leases (previously recorded in other non-current liabilities) of \$4.6 million and a corresponding reduction of the carrying amount of the ROU asset for the related leases.

As such, as at December 31, 2018, the Company recorded lease obligations of \$87.9 million, ROU assets of \$78.1 million, a net investment in a sublease of \$2.4 million (recorded in other assets), and a net reduction of \$2.2 million on opening retained earnings. When measuring lease liabilities, the Company discounted future lease payments using its incremental borrowing rate as at December 31, 2018. The weighted-average rate applied was 3.89%.

2. BASIS OF PREPARATION (continued):

(c) Initial application of new or amended accounting standards (continued):

The following table reconciles the Company's operating lease commitments as at December 30, 2018, as previously disclosed in the Company's annual audited consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 on December 31, 2018:

Undiscounted operating lease commitments as at December 30, 2018	\$	113,287
Recognition exemption for short term leases		(6,930)
Termination and renewal options reasonably certain to be exercised, net		(1,888)
Other		(460)
Impact of discounting using the incremental borrowing rate at December 31, 2018		(16,129)
Lease obligations recognized as at December 31, 2018	\$	87,880

Uncertain Income Tax Treatments

IFRIC 23, Uncertainty Over Income Tax Treatments, clarifies how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty regarding income tax treatments. The Interpretation addresses whether an entity needs to consider uncertain tax treatments separately, the assumptions an entity should make about the examination of tax treatments by taxation authorities, how an entity should determine taxable profit and loss, tax bases, unused tax losses, unused tax credits, and tax rates, and how an entity considers changes in facts and circumstances in such determinations. The Company adopted IFRIC 23 effective December 31, 2018, and its adoption did not have an impact on the Company's consolidated financial statements.

Amendments to Hedge Accounting Requirements

On September 26, 2019, the IASB published "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)" as a first reaction to the potential effects the IBOR reform could have on financial reporting. Interbank offered rates ("IBORs") are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity, and in a particular interbank term lending market. Recent market developments have brought into question the long-term viability of those benchmarks. The amendments, which address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform and require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. The amendments are effective for annual periods beginning on or after January 1, 2020, early adoption is permitted, and must be applied retrospectively. The Company has floating rate debt with a variable rate of interest linked to LIBOR as a benchmark for establishing the rate, a portion of which is hedged with \$250 million of floating-to-fixed interest rate swaps that are designated as cash flow hedges as described in note 14(b). As the amendments allow the Company to continue hedge accounting, the Company early adopted the amendments effective September 30, 2019 (first day of the fourth quarter of fiscal 2019). The amounts included in other comprehensive income in relation to floating-to-fixed interest rate swaps that are designated as cash flow hedges and that are mostly affected by the IBOR reform were not significant.

During the year ended December 30, 2018, the Company adopted the following new accounting standards:

Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers, establishes principles for reporting and disclosing the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company adopted the new standard on January 1, 2018 using the modified retrospective transition method, with the effect of initially applying this standard being recognized at January 1, 2018. As of January 1, 2018, the Company recorded a net reduction to opening retained earnings of \$0.7 million, net of tax, representing the gross margin on net sales of \$2.1 million for which revenue recognition is delayed under the new standard.

2. BASIS OF PREPARATION (continued):

(c) Initial application of new or amended accounting standards (continued):

Financial Instruments

IFRS 9 (2014), Financial Instruments, includes updated guidance on the classification, recognition, and measurement of financial assets and liabilities. IFRS 9 (2014) differs in some regards from IFRS 9 (2013), which the Company early adopted effective March 31, 2014. IFRS 9 (2014) requires the Company to record an allowance for expected credit losses ("ECLs") for all loans and other debt financial assets not held at fair value through profit and loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation of the asset's original effective interest rate. For trade and other receivables, the Company applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company adopted the new standard on January 1, 2018 and recorded a net reduction to opening retained earnings of \$0.8 million, net of tax, reflecting additional allowance for expected credit losses from the new expected credit loss model. The classification for the Company's financial assets and financial liabilities remained unchanged.

3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation:

(i) Business combinations:

Business combinations are accounted for using the acquisition method. Accordingly, the consideration transferred for the acquisition of a business is the fair value of the assets transferred and any debt and equity interests issued by the Company on the date control of the acquired company is obtained. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Contingent consideration classified as an asset or a liability that is a financial instrument is subsequently remeasured at fair value, with any resulting gain or loss recognized and included in restructuring and acquisition-related costs in the consolidated statement of earnings and comprehensive income. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred and are included in restructuring and acquisition-related costs in the consolidated statement of earnings and comprehensive income. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in an acquired company either at fair value or at the non-controlling interest's proportionate share of the acquired company's net identifiable assets. The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred and non-controlling interest recognized is less than the fair value of the net assets of the business acquired, a purchase gain is recognized immediately in the consolidated statement of earnings and comprehensive income and applied as a reduction of restructuring and acquisition-related costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(a) Basis of consolidation (continued):

(ii) Subsidiaries:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company. Intragroup transactions, balances, and unrealized gains or losses on transactions between group companies are eliminated.

The Company's principal subsidiaries, their jurisdiction of incorporation, and the Company's percentage ownership share of each are as follows:

Subsidiary	Jurisdiction of incorporation	Ownership percentage
Gildan Activewear SRL	Barbados	100%
Gildan Yarns, LLC	Delaware	100%
Gildan Branded Apparel SRL	Barbados	100%
Gildan Honduras Properties, S. de R.L.	Honduras	100%
Gildan Apparel (Canada) LP	Ontario	100%
Gildan Activewear (UK) Limited	United Kingdom	100%
Gildan Textiles de Sula, S. de R.L.	Honduras	100%
G.A.B. Limited	Bangladesh	100%
Gildan Activewear Honduras Textile Company, S. de R.L.	Honduras	100%
Gildan Activewear (Eden) Inc.	North Carolina	100%
Gildan Hosiery Rio Nance, S. de R.L.	Honduras	100%
Gildan Mayan Textiles, S. de R.L.	Honduras	100%
Gildan Charleston Inc.	Delaware	100%
Gildan Activewear Dominican Republic Textile Company Inc.	Barbados	100%
Gildan Honduras Trading, S. de R. L.	Honduras	100%

The Company has no other subsidiaries representing individually more than 10% of the total consolidated assets and 10% of the consolidated net sales of the Company, or in the aggregate more than 20% of the total consolidated assets and the consolidated net sales of the Company as at and for the fiscal year ended December 29, 2019.

(b) Foreign currency translation:

Monetary assets and liabilities of the Company's Canadian and foreign operations denominated in currencies other than the U.S. dollar are translated using exchange rates in effect at the reporting date. Non-monetary assets and liabilities denominated in currencies other than U.S. dollars are translated at the rates prevailing at the respective transaction dates. Income and expenses denominated in currencies other than U.S. dollars are translated at average rates prevailing during the year. Gains or losses on foreign exchange are recorded in net earnings and presented in the statement of earnings and comprehensive income within financial expenses.

(c) Cash and cash equivalents:

The Company considers all liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(d) **Trade accounts receivable:**

Trade accounts receivable consist of amounts due from our normal business activities. An allowance for expected credit losses is maintained to reflect an impairment risk for trade accounts receivable based on an expected credit loss model which factors in changes in credit quality since the initial recognition of trade accounts receivable based on customer risk categories. Expected credit losses are also provided for based on collection history and specific risks identified on a customer-by-customer basis. Trade accounts receivable are presented net of allowances for expected credit losses, sales discounts, and sales returns when the Company has a right to offset the amounts.

The Company may continuously sell trade accounts receivables of certain designated customers to a third-party financial institution in exchange for a cash payment equal to the face value of the sold trade receivables less an applicable discount. The Company retains servicing responsibilities, including collection, for these trade accounts receivables but does not retain any credit risk with respect to any trade accounts receivables that have been sold. All trade accounts receivables sold under the receivables purchase agreement are removed from the consolidated statements of financial position, as the sale of the trade accounts receivables qualify for de-recognition. The net cash proceeds received by the Company are included as cash flows from operating activities in the consolidated statements of cash flows. The difference between the carrying amount of the trade accounts receivables sold under the agreement and the cash received at the time of transfer is recorded in the statement of earnings and comprehensive income within financial expenses.

(e) **Inventories:**

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the first-in, first-out principle, and reflect the various stages of production that inventories have reached at period-end. Inventory costs include the purchase price and other costs directly related to the acquisition of raw materials and spare parts held for use in the manufacturing process, and the cost of purchased finished goods. Inventory costs also include the costs directly related to the conversion of materials to finished goods, such as direct labour, and a systematic allocation of fixed and variable production overhead, including manufacturing depreciation expense. The allocation of fixed production overhead to the cost of inventories is based on the normal capacity of the production facilities. Additional costs incurred as a result of operating below the normal capacity of the production facilities are excluded from the carrying value of inventories and charged directly to cost of sales. Normal capacity is the average production expected to be achieved during the fiscal year, under normal circumstances. The Company manages its day-to-day production costs and inventories using a standard inventory costing system whereby the cost of a product is determined using pre-established rates for materials, labour and production overhead expenses based on the manufacturing specifications of the product. At period end, the Company assesses whether the variances between the standard costs and the actual costs incurred relate to the conversion of materials to finished goods, or if they represent abnormal costs that should be charged directly to cost of sales. The carrying value of inventories is then adjusted to record the manufacturing variances related to inventories still on hand and manufacturing variances related to inventories that have been sold are charged to cost of sales, through an allocation method which uses an estimated variance deferral factor based on the number of days of inventory on hand based on the most recent past production. The Company's inventory costing process involves a combination of automated and non-automated systems and processes using data obtained from different geographical locations. Net realizable value is the estimated selling price of finished goods in normal sales channels, or where applicable, liquidation channels, less the estimated costs of completion and selling expenses. Raw materials, work in progress, and spare parts inventories are not written down if the finished products in which they will be incorporated are expected to be sold at or above cost.

(f) **Assets held for sale:**

Non-current assets which are classified as assets held for sale are reported in current assets in the statement of financial position, when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(g) **Property, plant and equipment:**

Property, plant and equipment are initially recorded at cost and are subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, site preparation costs, initial delivery and handling costs, installation and assembly costs, and any other costs directly attributable to bringing the assets to the location and condition necessary for the assets to be capable of operating in the manner intended by management. The cost of property, plant and equipment also includes, when applicable, borrowing costs, as well as the initial present value estimate of the costs of decommissioning or dismantling and removing the asset and restoring the site on which it is located at the end of its useful life which is amortized over the remaining life of the underlying asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of other equipment. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits are present and the cost of the item can be measured reliably. When property, plant and equipment are replaced they are fully written down. Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the statement of earnings and comprehensive income.

Land is not depreciated. The cost of property, plant and equipment less its residual value, if any, is depreciated on a straight-line basis over the following estimated useful lives:

Asset	Useful life
Buildings and improvements	5 to 40 years
Manufacturing equipment	2 to 20 years
Other equipment	3 to 10 years

Significant components of plant and equipment which are identified as having different useful lives are depreciated separately over their respective useful lives. Depreciation methods, useful lives and residual values, if applicable, are reviewed and adjusted, if appropriate, on a prospective basis at the end of each fiscal year.

Assets not yet utilized in operations include expenditures incurred to date for plant constructions or expansions which are still in process and equipment not yet placed into service as at the reporting date. Depreciation on these assets commences when the assets are available for use.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of the asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. Capitalization of borrowing costs ceases when the asset is completed and available for use.

All other borrowing costs are recognized as financial expenses in the consolidated statement of earnings and comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(h) Intangible assets:

Definite life intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets include identifiable intangible assets acquired and consist of customer contracts and customer relationships, license agreements, trademarks, and non-compete agreements. Intangible assets also include computer software that is not an integral part of the related hardware. Indefinite life intangible assets represent intangible assets which the Company controls which have no contractual or legal expiration date and therefore are not amortized as there is no foreseeable time limit to their useful economic life. An assessment of indefinite life intangible assets is performed annually to determine whether events and circumstances continue to support an indefinite useful life and any change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate on a prospective basis. Intangible assets with finite lives are amortized on a straight-line basis over the following estimated useful-lives:

Asset	Useful life
Customer contracts and customer relationships	7 to 20 years
License agreements	3 to 10 years
Computer software	4 to 7 years
Trademarks with a finite life	5 years
Non-compete agreements	2 years

Most of the Company's trademarks are not amortized as they are considered to be indefinite life intangible assets.

The costs of information technology projects that are directly attributable to the design and testing of identifiable and unique software products, including internally developed computer software, are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial, and other resources to complete the development and to use the software product are available; and
- the expenditures attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense in the consolidated statement of earnings and comprehensive income as incurred.

(i) Goodwill:

Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill arises on business combinations and is measured as the excess of the consideration transferred and the recognized amount of the non-controlling interest in the acquired business, if any, over the fair value of identifiable assets acquired and liabilities assumed of an acquired business.

(j) Impairment of non-financial assets:

Non-financial assets that have an indefinite useful life such as goodwill and trademarks are not subject to amortization and are therefore tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Assets that are subject to amortization are assessed at the end of each reporting period as to whether there is any indication of impairment or 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 carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and fair value less costs of disposal. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case assets are grouped at the lowest levels for which there are separately identifiable cash inflows (i.e. cash-generating units or "CGUs").

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(j) Impairment of non-financial assets (continued):

In assessing value in use, the estimated future cash flows expected to be derived from the asset or CGU by the Company are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset and or the CGU. In assessing a CGU's fair value less costs of disposal, the Company uses the best information available to reflect the amount that the Company could obtain, at the time of the impairment test, from the disposal of the asset or CGU in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

For the purpose of testing goodwill for impairment, goodwill acquired in a business combination is allocated to a CGU or a group of CGUs that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired company are assigned to those CGUs. Impairment losses recognized are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in the statement of earnings and comprehensive income.

Reversal of impairment losses

A goodwill impairment loss is not reversed. Impairment losses on non-financial assets other than goodwill recognized in prior periods are assessed at each reporting date for any indications 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.

(k) Financial instruments:

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets

Financial assets are classified into the following categories and depend on the purpose for which the financial assets were acquired.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and/or interest.

The Company currently classifies its cash and cash equivalents, trade accounts receivable, certain other current assets (excluding derivative financial instruments designated as effective hedging instruments), and long-term non-trade receivables as financial assets measured at amortized cost. The Company de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. However, for investments in equity instruments that are not held for trading, the Company may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment. The Company currently has no significant financial assets measured at fair value other than derivative financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(k) Financial instruments (continued):

Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it is not designated as at fair value through profit or loss, is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investments fair value in OCI. This election is made on an investment by investment basis. These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. The Company currently has no financial assets measured at FVOCI.

Financial liabilities

Financial liabilities are classified into the following categories.

Financial liabilities measured at amortized cost

A financial liability is subsequently measured at amortized cost, using the effective interest method. The Company currently classifies accounts payable and accrued liabilities (excluding derivative financial instruments designated as effective hedging instruments), and long-term debt bearing interest at variable and fixed rates as financial liabilities measured at amortized cost.

Financial liabilities measured at fair value

Financial liabilities at fair value are initially recognized at fair value and are remeasured at each reporting date with any changes therein recognized in net earnings. The Company currently has no significant financial liabilities measured at fair value.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

Financial instruments measured at fair value use the following fair value hierarchy to prioritize the inputs used in measuring fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. The Company recognizes a loss allowance at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for that financial instrument corresponds to an amount equal to twelve-month expected credit losses. The Company uses the simplified method to measure the loss allowance for trade receivables at lifetime expected losses. The Company uses historical trends of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Losses are recognized in the consolidated statement of income and reflected in an allowance account against trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(l) **Derivative financial instruments and hedging relationships:**

The Company enters into derivative financial instruments to hedge its market risk exposures. 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. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated. For a cash flow hedge 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 earnings.

Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in net earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

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 earnings, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in accumulated other comprehensive income as part of equity. The amount recognized in other comprehensive income is removed and included in net earnings under the same line item in the consolidated statement of earnings and comprehensive income as the hedged item, in the same period that the hedged cash flows affect net earnings. When a hedged forecasted transaction subsequently results in the recognition of a non-financial asset or liability, the cash flow hedge reserve is removed from accumulated other comprehensive income and included in the initial cost or carrying amount of the asset or liability. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income is recognized immediately in net earnings.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net earnings, together with any changes in the fair value of the hedged asset, liability or firm commitment that are attributable to the hedged risk. The change in fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the statement of earnings and comprehensive income or in the statement of financial position caption relating to the hedged item. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Embedded derivatives

Embedded derivatives within a financial liability are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Other derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in net earnings.

(m) **Accounts payable and accrued liabilities:**

Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities are classified as current liabilities if payment is due within one year, otherwise, they are presented as non-current liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(n) **Long-term debt:**

Long-term debt is recognized initially at fair value and is subsequently carried at amortized cost. Initial facility fees are deferred and treated as an adjustment to the instrument's effective interest rate and recognized as an expense over the instrument's estimated life if it is probable that the facility will be drawn down. However, if it is not probable that a facility will be drawn down for its entire term, then the fees are considered service fees and are deferred and recognized as an expense on a straight-line basis over the commitment period.

(o) **Employee benefits:**

Short-term employee benefits

Short-term employee benefits include wages, salaries, commissions, compensated absences and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short-term employee benefit obligations are included in accounts payable and accrued liabilities.

Defined contribution plans

The Company offers group defined contribution plans to eligible employees whereby the Company matches employees' contributions up to a fixed percentage of the employee's salary. Contributions by the Company to trustee-managed investment portfolios or employee associations are expensed as incurred. Benefits are also provided to employees through defined contribution plans administered by the governments in the countries in which the Company operates. The Company's contributions to these plans are recognized in the period when services are rendered.

Defined benefit plans

The Company maintains a liability for statutory severance obligations for active employees primarily located in the Caribbean Basin and Central America which is payable to the employees in a lump sum payment upon termination of employment. The liability is based on management's best estimates of the ultimate costs to be incurred to settle the liability and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions. Liabilities related to defined benefit plans are included in other non-current liabilities in the consolidated statement of financial position. Service costs, interest costs, and costs related to the impact of program changes are recognized in cost of sales in the consolidated statement of earnings. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to other comprehensive income in the period in which they arise, and are immediately transferred to retained earnings without reclassification to net earnings in a subsequent period.

(p) **Provisions:**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as financial expense. Provisions are included in other non-current liabilities in the consolidated statement of financial position.

Decommissioning and site restoration costs

The Company recognizes decommissioning and site restoration obligations for future removal and site restoration costs associated with the restoration of certain property and plant should it decide to discontinue some of its activities.

Onerous contracts

Provisions for onerous contracts are recognized if the unavoidable costs of meeting the obligations specified in a contractual arrangement exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the lower of the cost of fulfilling the contract and the expected cost of terminating the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(q) **Share capital:**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its own shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. When the shares are cancelled, the excess of the consideration paid over the average stated value of the shares purchased for cancellation is charged to retained earnings.

(r) **Dividends declared:**

Dividends declared to the Company's shareholders are recognized as a liability in the consolidated statement of financial position and charged to retained earnings in the period in which the dividends are approved by the Company's Board of Directors.

(s) **Revenue recognition:**

The Company derives revenue from the sale of finished goods, which include activewear, hosiery, and underwear. The Company recognizes revenue at a point in time when it transfers control of the finished goods to a customer, which generally occurs upon shipment of the finished goods from the Company's facilities. In certain arrangements, control is transferred and revenue is recognized upon delivery of the finished goods to the customer's premises.

Some arrangements for the sale of finished goods provide for customer price discounts, rights of return and/or volume rebates based on aggregate sales over a specified period, which gives rise to variable consideration. At the time of sale, estimates are made for items giving rise to variable consideration based on the terms of the sales program or arrangement. The variable consideration is estimated at contract inception using the most likely amount method and revenue is only recognized to the extent that a significant reversal of revenue is not expected to occur. The estimate is based on historical experience, current trends, and other known factors. New sales incentive programs which relate to sales made in a prior period are recognized at the time the new program is introduced. Sales are recorded net of customer discounts, rebates, and estimated sales returns, and exclude sales taxes. A refund liability is recognized for expected returns in relation to sales made before the end of the reporting period.

Consideration payable to a customer that is not considered a distinct good or service from the customer, such as one-time fees paid to customers for product placement or product introduction, is accounted for as a reduction of the transaction price, and the Company recognizes the reduction of revenue at the later of when Company recognizes revenue for the transfer of the related goods to the customer or when the Company pays or promises to pay the consideration.

(t) **Cost of sales and gross profit:**

Cost of sales includes all raw material costs, manufacturing conversion costs, including manufacturing depreciation expense, sourcing costs, inbound freight and inter-facility transportation costs, and outbound freight to customers. Cost of sales also includes the cost of purchased finished goods, costs relating to purchasing, receiving and inspection activities, manufacturing administration, third-party manufacturing services, sales-based royalty costs, insurance, inventory write-downs, and customs and duties. Gross profit is the result of net sales less cost of sales. The Company's gross profit may not be comparable to gross profit as reported by other companies, since some entities include warehousing and handling costs, and/or exclude depreciation expense, outbound freight to customers and royalty costs from cost of sales.

(u) **Selling, general and administrative expenses:**

Selling, general and administrative ("SG&A") expenses include warehousing and handling costs, selling and administrative personnel costs, advertising and marketing expenses, costs of leased non-manufacturing facilities and equipment, professional fees, non-manufacturing depreciation expense, and other general and administrative expenses. SG&A expenses also include amortization of intangible assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(v) **Restructuring and acquisition-related costs:**

Restructuring and acquisition-related costs are expensed when incurred, or when a legal or constructive obligation exists. Restructuring and acquisition-related costs are comprised of costs directly related to significant exit activities, including the closure of business locations or the relocation of business activities, significant changes in management structure, as well as transaction and integration costs incurred pursuant to business acquisitions. The nature of expenses included in restructuring and acquisition-related costs may include: severance and termination benefits, including the termination of employee benefit plans; gains or losses from the remeasurement and disposal of assets held for sale; write-downs of property, plant and equipment, right-of-use assets, and software related to exit activities; facility exit and closure costs, including the costs of physically transferring inventory and fixed assets to other facilities; costs of integrating the IT systems of an acquired business to Gildan's existing IT systems; legal, accounting and other professional fees (excluding costs of issuing debt or equity) directly incurred in connection with a business acquisition; purchase gains on business acquisitions; losses on business acquisitions achieved in stages; contingent amounts payable to selling shareholders under their employment agreements pursuant to a business acquisition; and the remeasurement of liabilities related to contingent consideration incurred in connection with a business acquisition.

(w) **Cotton and cotton-based yarn procurements:**

The Company contracts to buy cotton and cotton-based yarn with future delivery dates at fixed prices in order to reduce the effects of fluctuations in the prices of cotton used in the manufacture of its products. These contracts are not used for trading purposes and are not considered to be financial instruments as they are entered into for purchase and receipt in accordance with the Company's expected usage requirements, and therefore are not measured at fair value. The Company commits to fixed prices on a percentage of its cotton and cotton-based yarn requirements up to eighteen months in the future. If the cost of committed prices for cotton and cotton-based yarn plus estimated costs to complete production exceed current selling prices, a loss is recognized for the excess as a charge to cost of sales.

(x) **Government assistance:**

Government assistance is recognized only when there is reasonable assurance the Company will comply with all related conditions for receipt of the assistance. Government assistance, including grants and tax credits, related to operating expenses is accounted for as a reduction to the related expenses. Government assistance, including monetary and non-monetary grants and tax credits related to the acquisition of property, plant and equipment, is accounted for as a reduction of the cost of the related property, plant and equipment, and is recognized in net earnings using the same methods, periods and rates as for the related property, plant and equipment.

(y) **Financial expenses (income):**

Financial expenses (income) include: interest expense on borrowings, including realized gains and/or losses on interest rate swaps designated for hedge accounting; bank and other financial charges; amortization of debt facility fees, discount on the sales of trade accounts receivable; interest income on funds invested; accretion of interest on discounted provisions; net foreign currency losses and/or gains; and losses and/or gains on financial derivatives that do not meet the criteria for effective hedge accounting.

(z) **Income taxes:**

Income tax expense is comprised of current and deferred income taxes, and is included in net earnings except to the extent that it relates to a business acquisition, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are 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, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements. The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are derecognized to the extent that it is no longer probable that the related tax benefit will be realized. 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 at the time of the transaction; and, where the timing of the reversal of a temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(z) Income taxes (continued):

In determining the amount of current and deferred income taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Provisions for uncertain tax positions are measured at the best estimate of the amounts expected to be paid upon ultimate resolution. The Company periodically reviews and adjusts its estimates and assumptions of income tax assets and liabilities as circumstances warrant, such as changes to tax laws, administrative guidance, change in management's assessment of the technical merits of its positions due to new information, and the resolution of uncertainties through either the conclusion of tax audits or expiration of prescribed time limits within relevant statutes.

(aa) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding for the year. Diluted earnings per share are computed using the weighted average number of common shares outstanding for the period adjusted to include the dilutive impact of stock options and restricted share units. The number of additional shares is calculated by assuming that all common shares held in trust for the purpose of settling non-treasury restricted share units have been delivered, all dilutive outstanding options are exercised and all dilutive outstanding Treasury restricted share units have vested, and that the proceeds from such exercises, as well as the amount of unrecognized share-based compensation which is considered to be assumed proceeds, are used to repurchase common shares at the average share price for the period. For Treasury restricted share units, only the unrecognized share-based compensation is considered assumed proceeds since there is no exercise price paid by the holder.

(bb) Share-based payments:

Stock options, Treasury, and non-Treasury restricted share units

Stock options, Treasury restricted share units, and non-Treasury restricted share units are equity settled share-based payments, which are measured at fair value at the grant date. For stock options, the compensation cost is measured using the Black-Scholes option pricing model and is expensed over the award's vesting period. For Treasury and non-Treasury restricted share units, compensation cost is measured at the fair value of the underlying common share at the grant date and is expensed over the award's vesting period. Compensation expense is recognized in net earnings with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of stock options is credited to share capital. Upon the exercise of stock options, the vesting of Treasury restricted share units, and upon delivery of the common shares for settlement of vesting non-Treasury restricted share units, the corresponding amounts previously credited to contributed surplus are transferred to share capital. The number of non-Treasury restricted share units remitted to the participants upon settlement is equal to the number of non-Treasury restricted share units awarded less units withheld to satisfy the participants' statutory withholding tax requirements. Stock options and Treasury restricted share units that are dilutive and meet non-market performance conditions as at the reporting date are considered in the calculation of diluted earnings per share, as per note 3(aa) to these consolidated financial statements.

Estimates for forfeitures and performance conditions

The measurement of compensation expense for stock options, Treasury restricted share units and non-Treasury restricted share units is net of estimated forfeitures. For the portion of Treasury restricted share units and non-Treasury restricted share units that are issuable based on non-market performance conditions, the amount recognized as an expense is adjusted to reflect the number of awards for which the related service and performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Deferred share unit plan

The Company has a deferred share unit plan for independent members of the Company's Board of Directors, who receive a portion of their compensation in the form of deferred share units ("DSUs"). These DSUs are cash settled awards and are initially recognized in net earnings based on fair value at the grant date. The DSU obligation is included in accounts payable and accrued liabilities and is remeasured at fair value, based on the market price of the Company's common shares, at each reporting date.

Employee share purchase plans

For employee share purchase plans, the Company's contribution, on the employee's behalf, is recognized as compensation expense with an offset to share capital, and consideration paid by employees on purchase of common shares is also recorded as an increase to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(cc) Leases:

Policy applicable effective December 31, 2018

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the lease term. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. Lease terms range from 1 to 15 years for manufacturing, sales, distribution, and administrative facilities. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments mainly include fixed, or in substance fixed, payments and variable lease payments that depend on an index or a rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Policy applicable before December 31, 2018

Under IAS 17, Leases, and IFRIC 4, Determining whether an arrangement contains a lease, the Company's accounting policy was as follows:

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to net earnings on a straight-line basis over the lease term.

Leases of property, plant and equipment where the Company has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Determining whether an arrangement contains a lease

At inception of an arrangement where the Company receives the right to use an asset, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

(dd) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(dd) Use of estimates and judgments (continued):

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.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Determination of cash generating units ("CGUs")

The identification of CGUs and grouping of assets into the respective CGUs is based on currently available information about actual utilization experience and expected future business plans. Management has taken into consideration various factors in identifying its CGUs. These factors include how the Company manages and monitors its operations, the nature of each CGU's operations, and the major customer markets they serve. As such, the Company has identified its CGUs for purposes of testing the recoverability and impairment of non-financial assets to be Textile & Sewing and Hosiery.

Income taxes

The Company's income tax provisions and income tax assets and liabilities are based on interpretations of applicable tax laws, including income tax treaties between various countries in which the Company operates, as well as underlying rules and regulations with respect to transfer pricing. These interpretations involve judgments and estimates and may be challenged through government taxation audits that the Company is regularly subject to. New information may become available that causes the Company to change its judgment regarding the adequacy of existing income tax assets and liabilities; such changes will impact net earnings in the period that such a determination is made.

Key sources of estimation uncertainty:

Key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Allowance for expected credit losses

The Company makes an assessment of whether accounts receivable are collectable, based on an expected credit loss model which factors in changes in credit quality since the initial recognition of trade accounts receivable based on customer risk categories. Credit quality is assessed by taking into account the financial condition and payment history of the Company's customers, and other factors. Furthermore, these estimates must be continuously evaluated and updated. The Company is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial condition deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Company could be required to record additional allowances. Alternatively, if the Company provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

Inventory valuation

The cost of inventories may no longer be recoverable if inventories are discontinued, damaged, in excess quantities, or if their selling prices or estimated forecast of product demand decline. Discontinued, damaged, and excess inventories are carried at the net realizable value, as those inventories are sold below cost in liquidation channels. In determining the net realizable value of finished goods, the Company considers recent recovery rates and current market conditions in these channels. The Company regularly reviews inventory quantities on hand, current production plans, and forecasted future sales, and inventories are written-down to net realizable value when it is determined that they are no longer fully recoverable. There is estimation uncertainty in relation to the identification of excess inventories and in the expected selling prices used in establishing the net realizable value. For inventories subject to the strategic product line initiative (refer to note 7), there is also estimation uncertainty in relation to the quantities that the Company will be able to sell through its normal (non-liquidation) distribution channels at a selling price above cost. As at December 29, 2019, a 10% decrease or increase in the expected selling prices used to establish the net realizable value of inventories subject to the strategic product line initiative would result in either a decrease or an increase in inventories of approximately \$3.5 million, with a corresponding adjustment to cost of sales. If actual market conditions are less favorable than previously projected or if liquidation of the inventory which is no longer deemed fully recoverable is more difficult than anticipated, additional write-downs may be required.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(dd) Use of estimates and judgments (continued):

Recoverability and impairment of non-financial assets

The calculation of fair value less costs of disposal or value in use for purposes of measuring the recoverable amount of non-financial assets involves the use of significant assumptions and estimates with respect to a variety of factors, including expected sales, gross margins, SG&A expenses, cash flows, capital expenditures, and the selection of an appropriate earnings multiple or discount rate, all of which are subject to inherent uncertainties and subjectivity. The assumptions are based on annual business plans and other forecasted results, earnings multiples obtained by using market comparables as references, and discount rates which are used to reflect market-based estimates of the risks associated with the projected cash flows, based on the best information available as of the date of the impairment test. Changes in circumstances, such as technological advances, adverse changes in third-party licensing arrangements, changes to the Company's business strategy, and changes in economic and market conditions can result in actual useful lives and future cash flows that differ significantly from estimates and could result in increased charges for amortization or impairment. Revisions to the estimated useful lives of finite-life non-financial assets or future cash flows constitute a change in accounting estimate and are applied prospectively. There can be no assurance that the estimates and assumptions used in the impairment tests will prove to be accurate predictions of the future. If the future adversely differs from management's best estimate of key economic assumptions and the associated cash flows materially decrease, the Company may be required to record material impairment charges related to its non-financial assets. Please refer to note 10 of the audited annual consolidated financial statements for the year ended December 29, 2019 for additional details on the recoverability of the Company's cash-generating units.

Income taxes

The Company has unused available tax losses and deductible temporary differences in certain jurisdictions. The Company recognizes deferred income tax assets for these unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable profit will be available against which these available tax losses and temporary differences can be utilized. The Company's projections of future taxable profit involve the use of significant assumptions and estimates with respect to a variety of factors, including future sales and operating expenses. There can be no assurance that the estimates and assumptions used in our projections of future taxable income will prove to be accurate predictions of the future, and in the event that our assessment of the recoverability of these deferred tax assets changes in the future, a material reduction in the carrying value of these deferred tax assets could be required, with a corresponding charge to net earnings.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET APPLIED:

Amendments to IFRS 3, Business combinations

In October 2018, the IASB issued amendments to IFRS 3, Business combinations. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively. Given the prospective application of the amendment, at this time the Company does not expect any significant impacts as a result of its adoption.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consisted entirely of bank balances as at December 29, 2019 and December 30, 2018.

6. TRADE ACCOUNTS RECEIVABLE:

	December 29, 2019	December 30, 2018
Trade accounts receivable	\$ 328,115	\$ 324,706
Allowance for expected credit losses	(7,184)	(7,547)
	\$ 320,931	\$ 317,159

As at December 29, 2019, trade accounts receivables being serviced under a receivables purchase agreement amounted to \$141.0 million (December 30, 2018 - \$117.0 million). The receivables purchase agreement, which allows for the sale of a maximum of \$175 million of accounts receivables at any one time, expires on June 22, 2020, subject to annual extensions. The Company retains servicing responsibilities, including collection, for these trade receivables but has not retained any credit risk with respect to any trade receivables that have been sold. The difference between the carrying amount of the receivables sold under the agreement and the cash received at the time of transfer was \$3.2 million for fiscal 2019 (2018 - \$2.6 million) and was recorded in bank and other financial charges.

The movement in the allowance for expected credit losses in respect of trade receivables was as follows:

	2019	2018
Balance, beginning of fiscal year	\$ (7,547)	\$ (5,054)
Adjustment relating to initial adoption of IFRS 9 (note 2(c))	—	(791)
Adjusted balance, beginning of fiscal year	(7,547)	(5,845)
Impairment of trade accounts receivable	(27,652)	(3,634)
Write-off of trade accounts receivable	28,015	1,932
Balance, end of fiscal year	\$ (7,184)	\$ (7,547)

The impairment of trade accounts receivable for fiscal 2019 consisted primarily of a \$22.3 million charge relating to the receivership and liquidation of one of the Company's U.S. distributor customers. Beginning in fiscal 2019, impairment of trade accounts receivable has been presented separately on the statement of earnings (was previously included in selling, general and administrative expenses), and comparative periods have been reclassified to conform to this presentation.

7. INVENTORIES:

	December 29, 2019	December 30, 2018
Raw materials and spare parts inventories	\$ 152,584	\$ 151,600
Work in progress	75,535	67,903
Finished goods	823,933	720,526
	\$ 1,052,052	\$ 940,029

The amount of inventories recognized as an expense and included in cost of sales was \$2,044.9 million for fiscal 2019 (2018 - \$2,029.5 million), which included an expense of \$62.9 million (2018 - \$11.2 million) related to the write-down of inventory to net realizable value. Write-downs of inventory to net realizable value includes \$47.6 million for the impact of the Company's decision in the fourth quarter of fiscal 2019 to implement a strategic initiative to significantly reduce its imprintable product line stock-keeping unit (SKU) count by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands.

8. PROPERTY, PLANT AND EQUIPMENT:

2019	Land	Buildings and improvements	Manufacturing equipment	Other equipment	Assets not yet utilized in operations	Total
Cost						
Balance, December 30, 2018	\$ 70,957	\$ 550,885	\$ 1,085,345	\$ 159,201	\$ 57,630	\$ 1,924,018
Additions	49,791	10,585	37,461	7,663	37,433	142,933
Transfers	—	5,169	43,564	8,660	(57,393)	—
Disposals	(270)	(7,792)	(16,533)	(4,163)	—	(28,758)
Balance, December 29, 2019	\$ 120,478	\$ 558,847	\$ 1,149,837	\$ 171,361	\$ 37,670	\$ 2,038,193
Accumulated depreciation						
Balance, December 30, 2018	\$ —	\$ 181,821	\$ 640,418	\$ 111,304	\$ —	\$ 933,543
Depreciation	—	25,037	79,335	13,573	—	117,945
Disposals	—	(2,899)	(11,932)	(3,001)	—	(17,832)
Write-downs and impairments	—	1,875	6,657	1,025	—	9,557
Balance, December 29, 2019	\$ —	\$ 205,834	\$ 714,478	\$ 122,901	\$ —	\$ 1,043,213
Carrying amount, December 29, 2019	\$ 120,478	\$ 353,013	\$ 435,359	\$ 48,460	\$ 37,670	\$ 994,980
2018						
2018	Land	Buildings and improvements	Manufacturing equipment	Other equipment	Assets not yet utilized in operations	Total
Cost						
Balance, December 31, 2017	\$ 70,003	\$ 512,398	\$ 1,039,974	\$ 175,640	\$ 77,389	\$ 1,875,404
Additions	1,051	9,650	49,560	3,065	47,406	110,732
Transfers	—	33,932	31,735	1,498	(67,165)	—
Disposals	(97)	(5,095)	(35,924)	(21,002)	—	(62,118)
Balance, December 30, 2018	\$ 70,957	\$ 550,885	\$ 1,085,345	\$ 159,201	\$ 57,630	\$ 1,924,018
Accumulated depreciation						
Balance, December 31, 2017	\$ —	\$ 157,040	\$ 571,847	\$ 110,699	\$ —	\$ 839,586
Depreciation	—	24,781	91,081	9,935	—	125,797
Disposals	—	—	(22,510)	(9,330)	—	(31,840)
Balance, December 30, 2018	\$ —	\$ 181,821	\$ 640,418	\$ 111,304	\$ —	\$ 933,543
Carrying amount, December 30, 2018	\$ 70,957	\$ 369,064	\$ 444,927	\$ 47,897	\$ 57,630	\$ 990,475

Effective July 1, 2019, the Company revised the estimated useful lives of its yarn-spinning manufacturing equipment based on a re-assessment of their expected use to the Company and recent experience of their economic lives. These assets, which were previously being depreciated on a straight-line basis over 10 years, are now depreciated on a straight-line basis over 15 to 20 years depending on the nature of the equipment. The change in estimate was made on a prospective basis and resulted in a reduction of depreciation of approximately \$8.5 million, of which approximately \$1 million was included in cost of sales for the year ended December 29, 2019 as depreciation related to manufacturing equipment is initially included in the cost of inventories, and is charged to cost of sales when the related inventories have been sold. For fiscal 2020, the change in estimate is expected to result in a reduction of depreciation included in net earnings of approximately \$17 million.

Assets not yet utilized in operations include expenditures incurred to date for plant expansions which are still in process and equipment not yet placed into service as at the end of the reporting period.

As at December 29, 2019, there were contractual purchase obligations outstanding of approximately \$21.2 million for the acquisition of property, plant and equipment compared to \$24.8 million as of December 30, 2018.

9. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS:
(a) Right-of-use assets:

The following table presents the right-of-use assets for the Company:

	2019
Balance, December 30, 2018	\$ —
Impact of initial adoption of IFRS 16 (note 2(c))	78,119
Additions	10,342
Terminations	(1,627)
Depreciation	(13,295)
Balance, December 29, 2019	\$ 73,539

(b) Lease obligations:

The Company's leases are primarily for manufacturing, sales, distribution, and administrative facilities.

The following table presents lease obligations recorded in the statement of financial position as at December 29, 2019:

	December 29, 2019
Current	\$ 14,518
Non-current	66,982
	\$ 81,500

Leases of certain facilities contain extension or termination options exercisable by the Company before the end of the non-cancellable contract period. The Company has applied judgment to determine the lease term for the contracts with renewal and termination options and has included renewal and termination options in the measurement of lease obligations when it is reasonably certain to exercise the options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or a significant change in circumstances within its control which impacts the original assessments made. As at December 29, 2019, potential undiscounted future lease payments related to renewal options not included in the measurement of lease obligations are \$57.5 million.

The following table presents the undiscounted future minimum lease payments under non-cancellable leases (including short term leases) as at December 29, 2019:

	December 29, 2019
Less than one year	\$ 19,992
One to five years	46,669
More than five years	37,645
	\$ 104,306

For the year ended December 29, 2019, expenses relating to short-term leases and leases of low-value assets were \$3.4 million.

For the year ended December 29, 2019, the total cash outflow for recognized lease obligations (including interest) was \$16.6 million, of which \$13.5 million was included as part of cash outflows from financing activities.

10. INTANGIBLE ASSETS AND GOODWILL:
Intangible assets:

2019	Customer contracts and customer relationships	Trademarks	License agreements	Computer software	Non- compete agreements	Total
Cost						
Balance, December 30, 2018	\$ 224,489	\$ 226,172	\$ 69,600	\$ 58,255	\$ 1,790	\$ 580,306
Additions	—	—	3,150	11,074	—	14,224
Disposals	—	—	—	(206)	—	(206)
Balance, December 29, 2019	\$ 224,489	\$ 226,172	\$ 72,750	\$ 69,123	\$ 1,790	\$ 594,324
Accumulated amortization						
Balance, December 30, 2018	\$ 89,064	\$ 1,808	\$ 57,606	\$ 36,465	\$ 1,790	\$ 186,733
Amortization	12,780	700	3,809	5,206	—	22,495
Disposals	—	—	—	(18)	—	(18)
Write-downs and impairments	—	—	—	1,250	—	1,250
Balance, December 29, 2019	\$ 101,844	\$ 2,508	\$ 61,415	\$ 42,903	\$ 1,790	\$ 210,460
Carrying amount, December 29, 2019	\$ 122,645	\$ 223,664	\$ 11,335	\$ 26,220	\$ —	\$ 383,864

2018	Customer contracts and customer relationships	Trademarks	License agreements	Computer software	Non- compete agreements	Total
Cost						
Balance, December 31, 2017	\$ 224,489	\$ 226,172	\$ 59,498	\$ 49,771	\$ 1,880	\$ 561,810
Additions	—	—	10,102	9,363	—	19,465
Disposals	—	—	—	(879)	(90)	(969)
Balance, December 30, 2018	\$ 224,489	\$ 226,172	\$ 69,600	\$ 58,255	\$ 1,790	\$ 580,306
Accumulated amortization						
Balance, December 31, 2017	\$ 75,472	\$ 1,108	\$ 49,034	\$ 32,711	\$ 1,880	\$ 160,205
Amortization	13,592	700	8,572	4,475	—	27,339
Disposals	—	—	—	(721)	(90)	(811)
Balance, December 30, 2018	\$ 89,064	\$ 1,808	\$ 57,606	\$ 36,465	\$ 1,790	\$ 186,733
Carrying amount, December 30, 2018	\$ 135,425	\$ 224,364	\$ 11,994	\$ 21,790	\$ —	\$ 393,573

The carrying amount of internally-generated assets within computer software was \$21.8 million as at December 29, 2019 (December 30, 2018 - \$16.2 million). Included in computer software as at December 29, 2019 is \$9.9 million (December 30, 2018 - \$5.9 million) of assets not yet utilized in operations.

Goodwill:

	2019	2018
Balance, beginning of fiscal year	\$ 227,362	\$ 226,571
Goodwill acquired	—	692
Other	503	99
Balance, end of fiscal year	\$ 227,865	\$ 227,362

10. INTANGIBLE ASSETS AND GOODWILL (continued):
Recoverability of cash-generating units:

Goodwill acquired through business acquisitions and trademarks with indefinite useful lives have been allocated to the Company's CGUs as follows:

	December 29, 2019
Textile & Sewing:	
Goodwill	\$ 206,637
Indefinite life intangible assets	93,400
	\$ 300,037
Hosiery:	
Goodwill	\$ 21,228
Indefinite life intangible assets	129,272
	\$ 150,500

In assessing whether goodwill and indefinite life intangible assets are impaired, the carrying amounts of the CGUs (including goodwill and indefinite life intangible assets) are compared to their recoverable amounts. The recoverable amounts of CGUs are based on the higher of the value in use and fair value less costs of disposal. The Company performed the annual impairment review for goodwill and indefinite life intangible assets as at December 29, 2019, and the estimated recoverable amounts exceeded the carrying amounts of the CGUs and as a result, there was no impairment identified.

Recoverable amount

The Company determined the recoverable amounts of the Textile & Sewing and Hosiery CGUs based on the fair value less costs of disposal method. The fair values of the Textile & Sewing and Hosiery CGUs were based on a multiple applied to forecasted earnings before financial expenses, income taxes, depreciation and amortization, and restructuring and acquisition-related costs ("adjusted EBITDA") for the next year, which takes into account financial forecasts approved by senior management. The key assumptions for the fair value less costs of disposal method include estimated sales volumes, selling prices, input costs, and SG&A expenses in determining future forecasted adjusted EBITDA, as well as the multiple applied to forecasted adjusted EBITDA. The adjusted EBITDA multiple was obtained by using market comparables as a reference. The values assigned to the key assumptions represent management's assessment of future trends and have been based on historical data from external and internal sources. For the Textile & Sewing CGU, no reasonably possible change in the key assumptions used in determining the recoverable amount would result in any impairment of goodwill or indefinite life intangible assets.

Hosiery CGU

The key assumptions used in the estimation of the recoverable amount for the Hosiery CGU are the risk adjusted forecasted adjusted EBITDA for the next year and the adjusted EBITDA multiple of 11. The most significant assumptions that form part of the risk adjusted forecasted adjusted EBITDA for the Hosiery CGU relate to continuing sales trends and expected gross margins and SG&A expenses. Management has identified that a reasonably possible change in forecasted adjusted EBITDA or adjusted EBITDA multiple could cause the carrying amount of the Hosiery CGU to exceed its recoverable amount. A decrease in the risk adjusted forecasted adjusted EBITDA of 10% in the Hosiery CGU, combined with a decrease in the adjusted EBITDA multiple by a factor of 1 would result in the estimated recoverable amount being equal to the carrying amount. A further decrease in the risk adjusted forecasted adjusted EBITDA or the adjusted EBITDA multiple may result in the Company recording an impairment charge relating to the Hosiery CGU.

11. LONG-TERM DEBT:

	Effective interest rate ⁽¹⁾	Principal amount		Maturity date
		December 29, 2019	December 30, 2018	
Revolving long-term bank credit facility, interest at variable U.S. LIBOR-based interest rate plus a spread ranging from 1% to 2% ⁽²⁾	3.5%	\$ 245,000	\$ 69,000	April 2024
Term loan, interest at variable U.S. LIBOR-based interest rate plus a spread ranging from 1% to 2%, payable monthly ⁽³⁾	2.9%	300,000	300,000	April 2024
Notes payable, interest at fixed rate of 2.70%, payable semi-annually ⁽⁴⁾	2.7%	100,000	100,000	August 2023
Notes payable, interest at variable U.S. LIBOR-based interest rate plus a spread of 1.53% payable quarterly ⁽⁴⁾	2.7%	50,000	50,000	August 2023
Notes payable, interest at fixed rate of 2.91%, payable semi-annually ⁽⁴⁾	2.9%	100,000	100,000	August 2026
Notes payable, interest at variable U.S. LIBOR-based interest rate plus a spread of 1.57% payable quarterly ⁽⁴⁾	2.9%	50,000	50,000	August 2026
		\$ 845,000	\$ 669,000	

(1) Represents the annualized effective interest rate for the year ended December 29, 2019, including the cash impact of interest rate swaps, where applicable.

(2) The Company's unsecured revolving long-term bank credit facility of \$1 billion provides for an annual extension which is subject to the approval of the lenders. The spread added to the U.S. LIBOR-based variable interest rate is a function of the total net debt to EBITDA ratio (as defined in the credit facility agreement). In addition, an amount of \$22.5 million (December 30, 2018 - \$13.4 million) has been committed against this facility to cover various letters of credit.

(3) The unsecured term loan is non-revolving and can be prepaid in whole or in part at any time with no penalties. The spread added to the U.S. LIBOR-based variable interest rate is a function of the total net debt to EBITDA ratio (as defined in the term loan agreement).

(4) The unsecured notes issued for a total aggregate principal amount of \$300 million to accredited investors in the U.S. private placement market can be prepaid in whole or in part at any time, subject to the payment of a prepayment penalty as provided for in the Note Purchase Agreement.

In March 2019, the Company amended its unsecured revolving long-term bank credit facility of \$1 billion and its unsecured term loan of \$300 million to extend the maturity dates from April 2023 to April 2024.

Under the terms of the revolving facility, term loan facility, and notes, the Company is required to comply with certain covenants, including maintenance of financial ratios. The Company was in compliance with all financial covenants at December 29, 2019.

12. OTHER NON-CURRENT LIABILITIES:

	December 29, 2019	December 30, 2018
Employee benefit obligation - Statutory severance and pre-notice ^(a)	\$ 27,767	\$ 22,075
Employee benefit obligation - Defined contribution plan ^(b)	3,633	3,498
Provisions ^(c)	10,790	14,343
	\$ 42,190	\$ 39,916

(a) Statutory severance and pre-notice obligations:

	2019	2018
Obligation, beginning of fiscal year	\$ 22,075	\$ 16,096
Service cost	14,226	13,500
Interest cost	6,798	6,478
Actuarial loss ⁽¹⁾	1,296	1,694
Foreign exchange gain	(584)	(537)
Benefits paid	(16,044)	(15,156)
Obligation, end of fiscal year	\$ 27,767	\$ 22,075

(1) The actuarial loss is due to changes in the actuarial assumptions used to determine the statutory severance obligations.

Significant assumptions for the calculation of the statutory severance obligations included the use of a discount rate ranging between 9.3% and 10.0% (2018 - between 10.0% and 10.5%) and rates of compensation increases between 7.5% and 9.0% (2018 - between 6.5% and 10.0%). A 1% increase in the discount rates would result in a corresponding decrease in the statutory severance obligations of \$3.9 million, and a 1% decrease in the discount rates would result in a corresponding increase in the statutory severance obligations of \$4.6 million. A 1% increase in the rates of compensation increases used would result in a corresponding increase in the statutory severance obligations of \$4.9 million, and a 1% decrease in the rates of compensation increases used would result in a corresponding decrease in the statutory severance obligations of \$4.2 million.

The cumulative amount of actuarial losses recognized in other comprehensive income as at December 29, 2019 was \$25.1 million (December 30, 2018 - \$23.8 million) which have been reclassified to retained earnings in the period in which they were recognized.

(b) Defined contribution plan:

During fiscal 2019, defined contribution expenses were \$6.6 million (2018 - \$6.2 million).

(c) Provisions:

	Decommissioning and site restoration costs	Lease exit costs	Total
Balance, December 30, 2018	\$ 9,724	\$ 4,619	\$ 14,343
Impact of initial adoption of IFRS 16 (note 2(c))	—	(4,619)	(4,619)
Changes in estimates made during the fiscal year	779	—	779
Accretion of interest	287	—	287
Balance, December 29, 2019	\$ 10,790	\$ —	\$ 10,790

Provisions as at December 29, 2019 include estimated future costs of decommissioning and site restoration for certain assets located at the Company's textile and sock facilities for which the timing of settlement is uncertain, but has been estimated to be in excess of twenty years.

13. EQUITY:

(a) Shareholder rights plan:

The Company has a shareholder rights plan which provides the Board of Directors and the shareholders with additional time to assess any unsolicited take-over bid for the Company and, where appropriate, pursue other alternatives for maximizing shareholder value.

(b) Accumulated other comprehensive income ("AOCI"):

Accumulated other comprehensive income includes the changes in the fair value of the effective portion of qualifying cash flow hedging instruments outstanding at the end of the fiscal year.

(c) Share capital:

Authorized:

Common shares, authorized without limit as to number and without par value. First preferred shares, without limit as to number and without par value, issuable in series and non-voting. Second preferred shares, without limit as to number and without par value, issuable in series and non-voting. As at December 29, 2019 and December 30, 2018, none of the first and second preferred shares were issued.

Issued:

As at December 29, 2019, there were 199,012,156 common shares (December 30, 2018 - 206,732,436) issued and outstanding, which are net of 9,206 common shares (December 30, 2018 - 3,797) that have been purchased and are held in trust as described in note 13(e).

(d) Normal course issuer bid ("NCIB"):

On February 21, 2018, the Board of Directors of the Company approved the initiation of an NCIB commencing on February 27, 2018 and ending on February 26, 2019 to purchase for cancellation up to 10,960,391 common shares, representing approximately 5% of the Company's issued and outstanding common shares. On August 1, 2018, the Company obtained approval from the TSX to amend its current NCIB program in order to increase the maximum number of common shares that may be repurchased from 10,960,391 common shares, or approximately 5% of the Company's issued and outstanding common shares as at February 15, 2018 (the reference date for the NCIB), to 21,575,671 common shares, representing approximately 10% of the public float as at February 15, 2018. No other terms of the NCIB were amended. During the fiscal year ended December 30, 2018, the Company repurchased for cancellation a total of 12,634,693 common shares under its NCIB programs for a total cost of \$367.5 million. Of the total cost of \$367.5 million, \$9.2 million was charged to share capital and \$358.3 million was charged to retained earnings.

On February 20, 2019, the Company received approval from the TSX to renew its NCIB commencing on February 27, 2019 to purchase for cancellation up to 10,337,017 common shares, representing approximately 5% of the Company's issued and outstanding common shares.

During the year ended December 29, 2019, the Company repurchased for cancellation a total of 8,217,715 common shares under its NCIB programs for a total cost of \$257.2 million. Of the total cost of \$257.2 million, \$6.7 million was charged to share capital and \$250.5 million was charged to retained earnings.

On February 19, 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation a maximum of 9,939,154 common shares, representing approximately 5% of the Company's issued and outstanding common shares. The Company is authorized to make purchases under the bid during the period from February 27, 2020 to February 26, 2021 in accordance with the requirements of the TSX. Purchases will be made by means of open market transactions on both the TSX and the New York Stock Exchange ("NYSE"), or alternative trading systems, if eligible, or by such other means as may be permitted by securities regulatory authorities, including pre-arranged crosses, exempt offers, private agreements under an issuer bid exemption order issued by securities regulatory authorities, and block purchases of common shares. The average daily trading volume ("ADTV") of common shares on the TSX for the six-month period ended January 31, 2020 was 598,411. Consequently, and in accordance with the requirements of the TSX, Gildan may purchase up to a maximum of 149,602 common shares daily through TSX facilities, which represents 25% of the ADTV of common shares on the TSX for the most recently completed six calendar months.

13. EQUITY (continued):**(e) Common shares purchased as settlement for non-Treasury RSUs:**

The Company has established a trust for the purpose of settling the vesting of non-Treasury RSUs. For non-Treasury RSUs that are to be settled in common shares in lieu of cash, the Company directs the trustee to purchase common shares of the Company on the open market to be held in trust for and on behalf of the holders of non-Treasury RSUs until they are delivered for settlement, when the non-Treasury RSUs vest. For accounting purposes, the common shares are considered as held in treasury, and recorded as a temporary reduction of outstanding common shares and share capital. Upon delivery of the common shares for settlement of the non-Treasury RSUs, the number of common shares outstanding is increased, and the amount in contributed surplus is transferred to share capital. As at December 29, 2019, a total of 9,206 common shares representing \$0.2 million purchased as settlement for non-Treasury RSUs were considered as held in treasury and recorded as a temporary reduction of outstanding common shares and share capital (December 30, 2018 - 3,797 common shares representing \$0.1 million).

(f) Contributed surplus:

The contributed surplus account is used to record the accumulated compensation expense related to equity-settled share-based compensation transactions. Upon the exercise of stock options, the vesting of Treasury RSUs, and the delivery of common shares for settlement of vesting non-Treasury RSUs, the corresponding amounts previously credited to contributed surplus are transferred to share capital, except for the portion of the share-based payment that the Company settles on a net basis when the Company has an obligation under tax laws to withhold an amount for an employee's tax obligation, in which case the corresponding amounts previously credited to contributed surplus are transferred to accounts payable and accrued liabilities.

14. FINANCIAL INSTRUMENTS:

Disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, as well as risks arising from commodity prices, and how the Company manages those risks, are included in the section entitled "Financial risk management" of the Management's Discussion and Analysis of the Company's operations, financial performance and financial position as at December 29, 2019 and December 30, 2018. Accordingly, these disclosures are incorporated into these consolidated financial statements by cross-reference.

(a) Financial instruments - carrying amounts and fair values:

The carrying amounts and fair values of financial assets and liabilities included in the consolidated statements of financial position are as follows:

	December 29, 2019	December 30, 2018
Financial assets		
Amortized cost:		
Cash and cash equivalents	\$ 64,126	\$ 46,657
Trade accounts receivable	320,931	317,159
Financial assets included in prepaid expenses, deposits and other current assets	45,950	39,789
Long-term non-trade receivables included in other non-current assets	2,933	2,771
Derivative financial assets included in prepaid expenses, deposits and other current assets	9,816	17,792
Financial liabilities		
Amortized cost:		
Accounts payable and accrued liabilities ⁽¹⁾	\$ 395,564	\$ 332,543
Long-term debt - bearing interest at variable rates	645,000	469,000
Long-term debt - bearing interest at fixed rates ⁽²⁾	200,000	200,000
Derivative financial liabilities included in accounts payable and accrued liabilities	11,067	14,442

(1) Accounts payable and accrued liabilities include balances payable of \$39.6 million (December 30, 2018 - \$33.0 million) under supply-chain financing arrangements (reverse factoring) with a financial institution, whereby receivables due from the Company to certain suppliers can be collected by the suppliers from a financial institution before their original due date. These balances are classified as accounts payable and accrued liabilities and the related payments as cash flows from operating activities, given the principal business purpose of the arrangement is to provide funding to the supplier and not the Company, the arrangement does not significantly extend the payment terms beyond the normal terms agreed with other suppliers, and no additional deferral or special guarantees to secure the payments are included in the arrangement.

(2) The fair value of the long-term debt bearing interest at fixed rates was \$206.4 million as at December 29, 2019 (December 30, 2018 - \$189.5 million).

Short-term financial assets and liabilities

The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts as at the reporting dates due to the short-term maturities of these instruments, as they bear variable interest-rates or because the terms and conditions are comparable to current market terms and conditions for similar items.

Non-current assets and long-term debt bearing interest at variable rates

The fair values of the long-term non-trade receivables included in other non-current assets and the Company's long-term debt bearing interest at variable rates also approximate their respective carrying amounts because the interest rates applied to measure their carrying amounts approximate current market interest rates.

14. FINANCIAL INSTRUMENTS (continued):**(a) Financial instruments - carrying amounts and fair values (continued):*****Long-term debt bearing interest at fixed rates***

The fair value of the long-term debt bearing interest at fixed rates is determined using the discounted future cash flows method and at discount rates based on yield to maturities for similar issuances. The fair value of the long-term debt bearing interest at fixed rates was measured using Level 2 inputs in the fair value hierarchy. In determining the fair value of the long-term debt bearing interest at fixed rates, the Company takes into account its own credit risk and the credit risk of the counterparties.

Derivatives

Derivative financial instruments are designated as effective hedging instruments and consist of foreign exchange and commodity forward, option, and swap contracts, as well as floating-to-fixed interest rate swaps to fix the variable interest rates on a designated portion of borrowings under the term loan and unsecured notes. The fair value of the forward contracts is measured using a generally accepted valuation technique which is the discounted value of the difference between the contract's value at maturity based on the rate set out in the contract and the contract's value at maturity based on the rate that the counterparty would use if it were to renegotiate the same contract terms at the measurement date under current conditions. The fair value of the option contracts is measured using option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs, including volatility estimates and option adjusted credit spreads. The fair value of the interest rate swaps is determined based on market data, by measuring the difference between the fixed contracted rate and the forward curve for the applicable floating interest rates.

The Company also has a total return swap ("TRS") outstanding that is intended to reduce the variability of net earnings associated with deferred share units, which are settled in cash. The TRS is not designated as a hedging instrument and, therefore, the fair value adjustment at the end of each reporting period is recognized in selling, general and administrative expenses. The fair value of the TRS is measured by reference to the market price of the Company's common shares, at each reporting date. The TRS has a one-year term, may be extended annually, and the contract allows for early termination at the option of the Company. As at December 29, 2019, the notional amount of TRS outstanding was 216,727 shares (December 30, 2018 - 259,897 shares) and the carrying amount and fair value included in prepaid expenses, deposits and other current assets was \$0.3 million (December 30, 2018 - \$0.6 million included in accounts payable and accrued liabilities).

Derivative financial instruments were measured using Level 2 inputs in the fair value hierarchy. In determining the fair value of derivative financial instruments the Company takes into account its own credit risk and the credit risk of the counterparties.

(b) Derivative financial instruments - hedge accounting:

During fiscal 2019 and 2018, the Company entered into foreign exchange and commodity forward, option, and swap contracts in order to minimize the exposure of forecasted cash inflows and outflows in currencies other than the U.S. dollar and to manage its exposure to movements in commodity prices, as well as floating-to-fixed interest rate swaps to fix the variable interest rates on a designated portion of borrowings under the term loan and unsecured notes.

The forward foreign exchange contracts were designated as cash flow hedges and qualified for hedge accounting. The forward foreign exchange contracts outstanding as at December 29, 2019 and December 30, 2018 consisted primarily of contracts to reduce the exposure to fluctuations in Canadian dollars, Euros, Australian dollars, Pounds sterling, and Mexican pesos against the U.S. dollar.

The commodity forward, option, and swap contracts were designated as cash flow hedges and qualified for hedge accounting. The commodity contracts outstanding as at December 29, 2019 and December 30, 2018 consisted primarily of forward, collar, and swap contracts to reduce the exposure to movements in commodity prices.

The floating-to-fixed interest rate swaps were designated as cash flow hedges and qualified for hedge accounting. The floating-to-fixed interest rate swaps contracts outstanding as at December 29, 2019 and December 30, 2018 served to fix the variable interest rates on the designated interest payments of a portion of the Company's long-term debt.

14. FINANCIAL INSTRUMENTS (continued):
(b) Derivative financial instruments - hedge accounting (continued):

The following table summarizes the Company's commitments to buy and sell foreign currencies (cash flow hedges) as at December 29, 2019:

	Notional foreign currency amount equivalent	Average exchange rate	Notional U.S. \$ equivalent	Carrying and fair value		Maturity
				Prepaid expenses, deposits and other current assets	Accounts payable and accrued liabilities	0 to 12 months
Forward foreign exchange contracts:						
Sell GBP/Buy USD	32,737	1.2750	\$ 41,739	\$ 187	\$ (1,169)	\$ (982)
Sell EUR/Buy USD	35,236	1.1341	39,960	502	(78)	424
Sell CAD/Buy USD	58,212	0.7612	44,309	49	(130)	(81)
Buy CAD/Sell USD	31,287	0.7514	23,510	342	—	342
Sell AUD/Buy USD	7,691	0.6974	5,364	38	(32)	6
Sell MXN/Buy USD	272,914	0.0504	13,761	—	(356)	(356)
			\$ 168,643	\$ 1,118	\$ (1,765)	\$ (647)

The following table summarizes the Company's commitments to buy and sell foreign currencies (cash flow hedges) as at December 30, 2018:

	Notional foreign currency amount equivalent	Average exchange rate	Notional U.S. \$ equivalent	Carrying and fair value		Maturity
				Prepaid expenses, deposits and other current assets	Accounts payable and accrued liabilities	0 to 12 months
Forward foreign exchange contracts:						
Sell GBP/Buy USD	28,510	1.3224	\$ 37,703	\$ 1,366	\$ —	\$ 1,366
Sell EUR/Buy USD	31,578	1.1892	37,551	1,004	(19)	985
Sell CAD/Buy USD	33,114	0.7784	25,776	1,369	—	1,369
Buy CAD/Sell USD	62,921	0.7583	47,712	—	(1,180)	(1,180)
Sell AUD/Buy USD	7,941	0.7304	5,800	198	—	198
Buy MXN/Sell USD	79,275	0.0475	3,766	162	—	162
			\$ 158,308	\$ 4,099	\$ (1,199)	\$ 2,900

14. FINANCIAL INSTRUMENTS (continued):
(b) Derivative financial instruments - hedge accounting (continued):

The following table summarizes the Company's commodity contracts outstanding (cash flow hedges) as at December 29, 2019:

	Type of commodity	Notional amount ⁽¹⁾	Carrying and fair value		Maturity
			Prepaid expenses, deposits and other current assets	Accounts payable and accrued liabilities	0 to 12 months
Forward contracts	Cotton	133.7 million pounds	\$ 3,494	\$ (198)	\$ 3,296
Swap contracts	Synthetic fibres	60.6 million pounds	—	(6,859)	(6,859)
Swap & option contracts	Energy	202,400 barrels	1,185	(186)	999
			\$ 4,679	\$ (7,243)	\$ (2,564)

(1) Notional amounts are not in thousands.

The following table summarizes the Company's commodity contracts outstanding (cash flow hedges) as at December 30, 2018:

	Type of commodity	Notional amount ⁽¹⁾	Carrying and fair value		Maturity
			Prepaid expenses, deposits and other current assets	Accounts payable and accrued liabilities	0 to 12 months
Forward contracts	Cotton	76.0 million pounds	\$ 336	\$ (3,173)	\$ (2,837)
Swap contracts	Synthetic fibres	147.7 million pounds	—	(5,516)	(5,516)
Swap & option contracts	Energy	290,000 barrels	145	(2,469)	(2,324)
			\$ 481	\$ (11,158)	\$ (10,677)

(1) Notional amounts are not in thousands.

The total notional amount of commodity contracts outstanding as at December 30, 2018 for which hedge accounting was not applied is 81.2 million pounds. The carrying and fair value of these contracts are recorded as prepaid expenses, deposits and other current assets (\$0.3 million) and accounts payable and accrued liabilities (\$1.0 million).

14. FINANCIAL INSTRUMENTS (continued):
(b) Derivative financial instruments - hedge accounting (continued):

The following table summarizes the Company's floating-to-fixed interest rate swap contracts outstanding (cash flow hedges) as at December 29, 2019:

	Notional amount of borrowings	Maturity date	Pay / Receive	Fixed rate	Floating rate	Carrying and fair value	
						Prepaid expenses, deposits and other current assets	Accounts payable and accrued liabilities
Term Loan⁽¹⁾							
\$	150,000	June 17, 2021	Pay fixed rate / receive floating rate	0.96%	US LIBOR	\$ 1,379	\$ —
	75,000	April 30, 2023	Pay fixed rate / receive floating rate	2.85%	US LIBOR	—	(1,817)
	50,000	April 30, 2024	Pay fixed rate / receive floating rate	1.51%	US LIBOR	252	(242)
Unsecured Notes							
	50,000	August 25, 2023	Pay fixed rate / receive floating rate	1.18%	US LIBOR	866	—
	50,000	August 25, 2026	Pay fixed rate / receive floating rate	1.34%	US LIBOR	1,179	—
						\$ 3,676	\$ (2,059)

(1) The notional amounts for the interest rate swap contracts maturing on April 30, 2023 and April 30, 2024 are extensions to the \$150 million interest rate swap contracts originally entered into related to the term loan and maturing on June 17, 2021.

The following table summarizes the Company's floating-to-fixed interest rate swap contracts outstanding (cash flow hedges) as at December 30, 2018:

	Notional amount of borrowings	Maturity date	Pay / Receive	Fixed rate	Floating rate	Carrying and fair value	
						Prepaid expenses, deposits and other current assets	Accounts payable and accrued liabilities
Term Loan⁽¹⁾							
\$	150,000	June 17, 2021	Pay fixed rate / receive floating rate	0.96%	US LIBOR	\$ 5,500	\$ —
	75,000	April 30, 2023	Pay fixed rate / receive floating rate	2.85%	US LIBOR	—	(521)
Unsecured Notes							
	50,000	August 25, 2023	Pay fixed rate / receive floating rate	1.18%	US LIBOR	3,070	—
	50,000	August 25, 2026	Pay fixed rate / receive floating rate	1.34%	US LIBOR	4,382	—
						\$ 12,952	\$ (521)

(1) The notional amounts for the interest rate swap contracts maturing on April 30, 2023 are extensions to the \$150 million interest rate swap contracts originally entered into related to the term loan and maturing on June 17, 2021.

14. FINANCIAL INSTRUMENTS (continued):
(b) Derivative financial instruments - hedge accounting (continued):

The following table summarizes the Company's hedged items as at December 29, 2019:

	Carrying amount of the hedged item		Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve (AOCI)
	Assets	Liabilities		
Cash flow hedges:				
Foreign currency risk:				
Forecast sales	\$ —	\$ —	\$ (972)	\$ 972
Forecast expenses	—	—	342	(342)
Commodity risk:				
Forecast purchases	—	—	(1,416)	1,416
Interest rate risk:				
Forecast interest payments	—	—	1,511	(1,511)
	\$ —	\$ —	\$ (535)	\$ 535

No ineffectiveness was recognized in net earnings as the change in value of the hedging instrument used for calculating ineffectiveness was the same or smaller as the change in value of the hedged items used for calculating the ineffectiveness.

The following table summarizes the Company's hedged items as at December 30, 2018:

	Carrying amount of the hedged item		Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve (AOCI)
	Assets	Liabilities		
Cash flow hedges:				
Foreign currency risk:				
Forecast sales	\$ —	\$ —	\$ 2,752	\$ (2,752)
Forecast expenses	—	—	(897)	897
Commodity risk:				
Forecast purchases	—	—	(10,677)	10,677
Interest rate risk:				
Forecast interest payments	—	—	12,204	(12,204)
	\$ —	\$ —	\$ 3,382	\$ (3,382)

No ineffectiveness was recognized in net earnings as the change in value of the hedging instrument used for calculating ineffectiveness was the same or smaller as the change in value of the hedged items used for calculating the ineffectiveness.

14. FINANCIAL INSTRUMENTS (continued):
(c) Financial expenses, net:

	2019	2018
Interest expense on financial liabilities recorded at amortized cost ⁽¹⁾	\$ 28,659	\$ 24,757
Bank and other financial charges	8,010	7,472
Interest accretion on discounted lease obligations	3,141	—
Interest accretion on discounted provisions	287	299
Foreign exchange gain	(929)	(1,483)
	\$ 39,168	\$ 31,045

(1) Net of capitalized borrowing costs of \$1.3 million (2018 - \$0.7 million).

(d) Hedging components of other comprehensive income (“OCI”):

	2019	2018
Net gain (loss) on derivatives designated as cash flow hedges:		
Foreign currency risk	\$ 4,566	\$ 6,740
Commodity price risk	(8,213)	698
Interest rate risk	(10,588)	102
Income taxes	(46)	(67)
Amounts reclassified from OCI to inventory, related to commodity price risk	16,656	(13,303)
Amounts reclassified from OCI to net earnings, related to foreign currency risk and interest rate risk, and included in:		
Net sales	(5,667)	(1,864)
Cost of sales	(350)	(307)
Selling, general and administrative expenses	417	51
Financial expenses, net	(752)	(2,224)
Income taxes	60	16
Cash flow hedging loss	\$ (3,917)	\$ (10,158)

The change in the time value element of option and swap contracts designated as cash flow hedges to reduce the exposure in movements of commodity prices was not significant for the years ended December 29, 2019 and December 30, 2018.

The change in the forward element of derivatives designated as cash flow hedges to reduce foreign currency risk was not significant for the years ended December 29, 2019 and December 30, 2018.

Approximately \$1.5 million of net losses presented in accumulated other comprehensive income are expected to be reclassified to inventory or net earnings within the next twelve months.

15. SHARE-BASED COMPENSATION:**(a) Employee share purchase plans:**

The Company has employee share purchase plans which allow eligible employees to authorize payroll deductions of up to 10% of their salary to purchase from Treasury, common shares of the Company at a price of 90% of the then current share price as defined in the plans. Employees purchasing shares under the plans subsequent to January 1, 2008 must hold the shares for a minimum of two years. The Company has reserved 5,000,000 common shares for issuance under the plans. As at December 29, 2019, 4,593,883 common shares remained authorized for future issuance under the plans. Included as compensation costs in selling, general and administrative expenses is \$0.2 million (2018 - \$0.2 million) relating to the employee share purchase plans.

(b) Stock options and restricted share units:

The Company's Long-Term Incentive Plan (the "LTIP") includes stock options and restricted share units. The LTIP allows the Board of Directors to grant stock options, dilutive restricted share units ("Treasury RSUs") and non-dilutive restricted share units ("non-Treasury RSUs") to officers and other key employees of the Company and its subsidiaries. The number of common shares that are issuable pursuant to the exercise of stock options and the vesting of Treasury RSUs for the LTIP is fixed at 12,000,632. As at December 29, 2019, 1,505,829 common shares remained authorized for future issuance under this plan.

The exercise price payable for each common share covered by a stock option is determined by the Board of Directors at the date of the grant, but may not be less than the closing price of the common shares of the Company on the trading day immediately preceding the effective date of the grant. Stock options granted since fiscal 2007 vest equally beginning on the second, third, fourth, and fifth anniversary of the grant date, with limited exceptions.

Holders of Treasury RSUs, non-Treasury RSUs and deferred share units are entitled to dividends declared by the Company which are recognized in the form of additional equity awards equivalent in value to the dividends paid on common shares. The vesting conditions of the additional equity awards are subject to the same performance objectives and other terms and conditions as the underlying equity awards. The additional awards related to outstanding Treasury RSUs and non-Treasury RSUs expected to be settled in common shares are credited to contributed surplus when the dividends are declared.

15. SHARE-BASED COMPENSATION (continued):
(b) Stock options and restricted share units (continued):

Outstanding stock options were as follows:

Stock options issued in Canadian dollars and to be exercised on the TSX:

	Number	Weighted exercise price (CA\$)
Stock options outstanding, December 31, 2017	2,263	\$ 32.94
Changes in outstanding stock options:		
Exercised	(110)	19.98
Forfeited	(160)	33.58
Stock options outstanding, December 30, 2018	1,993	33.60
Changes in outstanding stock options:		
Exercised	(443)	26.45
Stock options outstanding, December 29, 2019	1,550	\$ 35.65

Stock options issued in U.S. dollars and to be exercised on the NYSE:

	Number	Weighted exercise price (US\$)
Stock options outstanding, December 31, 2017	759	\$ 29.01
Changes in outstanding stock options:		
Forfeited in fiscal 2018	(90)	29.01
Stock options outstanding, December 30, 2018 and December 29, 2019	669	\$ 29.01

As at December 29, 2019, 822,394 outstanding options issued in Canadian dollars to be exercised on the TSX were exercisable at the weighted average exercise price of CA\$34.02 (December 30, 2018 - 915,628 options at CA\$30.22), and 167,224 outstanding options issued in U.S. dollars and to be exercised on the NYSE, were exercisable at the weighted average exercise price of US\$29.01 (December 30, 2018 - nil options). For stock options exercised during fiscal 2019, the weighted average share price at the date of exercise was CA\$47.24 (2018 - CA\$39.79). There were no options granted during fiscal 2019 or 2018.

15. SHARE-BASED COMPENSATION (continued):
(b) Stock options and restricted share units (continued):

The following table summarizes information about stock options issued and outstanding and exercisable at December 29, 2019:

Exercise prices	Options issued and outstanding		Options exercisable
	Number	Remaining contractual life (yrs)	Number
CA\$24.22	87	1	87
CA\$30.46	126	2	126
CA\$33.01	543	4	226
CA\$38.01	511	3	384
CA\$42.27	283	6	—
	1,550		823
US\$29.01	669	5	167
	2,219		990

A Treasury RSU represents the right of an individual to receive one common share on the vesting date without any monetary consideration being paid to the Company. All Treasury RSUs awarded to date vest within a five-year vesting period. The vesting of at least 50% of each Treasury RSU grant is contingent on the achievement of performance conditions that are based on the Company's average return on assets performance for the period as compared to the S&P/TSX Capped Consumer Discretionary Index, excluding income trusts.

Outstanding Treasury RSUs were as follows:

	Number	Weighted average fair value per unit
Treasury RSUs outstanding, December 31, 2017	102	\$ 30.46
Changes in outstanding Treasury RSUs:		
Granted	20	30.10
Granted for dividends declared	2	29.94
Forfeited	(18)	27.93
Treasury RSUs outstanding, December 30, 2018	106	30.82
Changes in outstanding Treasury RSUs:		
Granted	18	31.51
Granted for dividends declared	1	34.14
Settled through the issuance of common shares	(11)	25.97
Treasury RSUs outstanding, December 29, 2019	114	\$ 31.42

As at December 29, 2019 and December 30, 2018, none of the outstanding Treasury RSUs were vested.

The compensation expense included in operating income for fiscal 2019 was \$2.6 million (2018 - \$2.9 million) in respect of the stock options and \$0.6 million (2018 - \$0.5 million) in respect of Treasury RSUs, and the counterpart has been recorded as contributed surplus. When the underlying shares are issued to the employees, the amounts previously credited to contributed surplus are transferred to share capital.

15. SHARE-BASED COMPENSATION (continued):
(b) Stock options and restricted share units (continued):

Outstanding non-Treasury RSUs were as follows:

	Number	Weighted average fair value per unit
Non-Treasury RSUs outstanding, December 31, 2017	1,200	\$ 27.79
Changes in outstanding non-Treasury RSUs:		
Granted	573	29.82
Granted for additional performance conditions	109	28.46
Granted for dividends declared	24	29.81
Settled - common shares	(226)	28.47
Settled - payment of withholding taxes	(151)	28.47
Forfeited	(155)	27.99
Non-Treasury RSUs outstanding, December 30, 2018	1,374	28.52
Changes in outstanding non-Treasury RSUs:		
Granted	509	34.89
Granted for additional performance conditions	93	25.57
Granted for dividends declared	26	29.21
Settled - common shares	(256)	25.59
Settled - payment of withholding taxes	(170)	25.59
Forfeited	(154)	29.24
Non-Treasury RSUs outstanding, December 29, 2019	1,422	\$ 31.42

Non-Treasury RSUs have the same features as Treasury RSUs, except that their vesting period is a maximum of three years and they can be settled in cash based on the Company's share price on the vesting date, or through the delivery of common shares purchased on the open market, at the Company's option. Non-Treasury RSUs are settled in common shares purchased on the open market, and to the extent that the Company has an obligation under tax laws to withhold an amount for an employee's tax obligation associated with the share-based payment the Company settles non-Treasury RSUs on a net basis. 100% of the non-Treasury RSUs awarded to executive officers have vesting conditions that are dependent upon the financial performance of the Company relative to a benchmark group of Canadian publicly listed companies, or strategic performance objectives, which are set based on the Company's long-term strategic plan. In addition, up to two times the actual number of non-Treasury RSUs awarded can vest if exceptional financial performance is achieved. As at December 29, 2019 and December 30, 2018, none of the outstanding non-Treasury RSUs were vested.

The compensation expense included in operating income, in respect of the non-Treasury RSUs, for fiscal 2019 was \$12.9 million (2018 - \$16.4 million), and the counterpart has been recorded as contributed surplus. When the underlying common shares are delivered to employees for settlement upon vesting, the amounts previously credited to contributed surplus are transferred to share capital.

15. SHARE-BASED COMPENSATION (continued):
(c) Deferred share unit plan:

The Company has a deferred share unit plan for independent members of the Company's Board of Directors who must receive at least 50% of their annual board retainers in the form of deferred share units ("DSUs"). The value of these DSUs is based on the Company's share price at the time of payment of the retainers or fees. DSUs granted under the plan will be redeemable and the value thereof payable in cash only after the director ceases to act as a director of the Company. As at December 29, 2019, there were 234,827 (December 30, 2018 - 274,794) DSUs outstanding at a value of \$6.9 million (December 30, 2018 - \$8.3 million). This amount is included in accounts payable and accrued liabilities based on a fair value per deferred share unit of \$29.55 (December 30, 2018 - \$30.24). The DSU obligation is adjusted each quarter based on the market value of the Company's common shares. The Company includes the cost of the DSU plan in selling, general and administrative expenses, which for fiscal 2019 was \$1.8 million (2018 - \$1.7 million).

Changes in outstanding DSUs were as follows:

	2019	2018
DSUs outstanding, beginning of fiscal year	275	293
Granted	48	54
Granted for dividends declared	3	4
Redeemed	(91)	(76)
DSUs outstanding, end of fiscal year	235	275

16. SUPPLEMENTARY INFORMATION RELATING TO THE NATURE OF EXPENSES:
(a) Selling, general and administrative expenses:

	2019	2018
Selling expenses	\$ 99,419	\$ 108,363
Administrative expenses ⁽¹⁾	121,273	132,101
Distribution expenses	119,795	124,448
	\$ 340,487	\$ 364,912

(1) Impairment of trade accounts receivable has been presented separately on the statement of earnings (was previously included in administrative expenses), and comparative periods have been reclassified to conform to this presentation.

(b) Employee benefit expenses:

	2019	2018
Salaries, wages and other short-term employee benefits	\$ 534,222	\$ 541,769
Share-based payments	16,272	19,974
Post-employment benefits	41,864	31,922
	\$ 592,358	\$ 593,665

(c) Government assistance:

During the year ended December 29, 2019 an amount of \$14.0 million (2018 - \$14.5 million) was recognized in the consolidated statement of earnings and comprehensive income relating to government assistance for production costs.

(d) Other:

During the year ended December 30, 2018 an amount of \$35.8 million was recognized in the consolidated statement of earnings and comprehensive income relating to operating leases (including operating costs, short term leases, and leases of low-value assets).

17. RESTRUCTURING AND ACQUISITION-RELATED COSTS:

Restructuring and acquisition-related costs are presented in the following table, and are comprised of costs directly related to significant exit activities, including the closure of business locations or the relocation of business activities, significant changes in management structure, as well as transaction, exit, and integration costs incurred pursuant to business acquisitions.

	2019	2018
Employee termination and benefit costs	\$ 17,064	\$ 7,767
Exit, relocation and other costs	17,190	13,620
Net loss on disposal and write-downs of property, plant and equipment, right-of-use assets and software related to exit activities	13,061	12,394
Acquisition-related transaction costs	14	447
	\$ 47,329	\$ 34,228

Restructuring and acquisition-related costs in fiscal 2019 related to the following: \$14.2 million for the closure of textile manufacturing and sewing operations in Mexico; \$7.3 million for the consolidation of sewing activities in Honduras; \$7.0 million for the closure of a hosiery manufacturing plant in Canada; \$9.9 million for the exit of yarn-recycling activities (planned disposal of yarn recycling equipment) and the closure of a yarn-spinning plant in the U.S.; \$4.8 million for the exit of ship-to-the-piece activities; and \$4.1 million to complete restructuring activities that were initiated in fiscal 2018, including the closure of the AKH textile manufacturing facility and the consolidation of U.S. distribution centres.

Restructuring and acquisition-related costs in fiscal 2018 related primarily to the following: \$9.0 million for the closure of the AKH textile manufacturing facility which was acquired as part of the Anvil acquisition; \$9.0 million for the consolidation of the Company's U.S. distribution centres pursuant to prior years' business acquisitions (net of a gain on disposal of \$1.2 million and the \$5.0 million reversal of an environmental liability for a distribution facility sold in fiscal 2018); \$7.3 million for the Company's internal organizational realignment; \$5.5 million for the consolidation of sock production manufacturing; and \$3.4 million in other costs, including the consolidation of garment dyeing operations acquired in the Comfort Colors acquisition and information systems integration for prior year acquisitions.

18. INCOME TAXES:

The income tax provision differs from the amount computed by applying the combined Canadian federal and provincial tax rates to earnings before income taxes. The reasons for the difference and the related tax effects are as follows:

	2019	2018
Earnings before income taxes	\$ 249,825	\$ 372,134
Applicable statutory tax rate	26.6 %	26.6%
Income taxes at applicable statutory rate	66,404	98,913
(Decrease) increase in income taxes resulting from:		
Effect of different tax rates on earnings of foreign subsidiaries	(79,229)	(96,013)
Income tax recovery and other adjustments related to prior taxation years	197	979
Effect of changes in tax rates	—	2,048
Recognition of previously de-recognized tax benefits related to tax losses and temporary differences	(19,211)	—
Non-recognition of tax benefits related to tax losses and temporary differences	16,877	17,169
Effect of non-deductible expenses and other	4,978	(1,736)
Total income tax expense	\$ (9,984)	\$ 21,360
Average effective tax rate	(4.0)%	5.7%

The Company's applicable statutory tax rate is the Canadian combined rate applicable in the jurisdictions in which the Company operates.

The details of income tax expense are as follows:

	2019	2018
Current income taxes, includes an expense of \$99 (2018 - \$3,535) relating to prior taxation years	\$ 13,639	\$ 12,488
Deferred income taxes:		
Changes in tax rates	—	2,048
Origination and reversal of temporary differences	(21,387)	(7,789)
Recognition of previously de-recognized tax benefits related to tax losses and temporary differences	(19,211)	—
Non-recognition of tax benefits related to tax losses and temporary differences	16,877	17,169
Adjustments relating to prior taxation years	98	(2,556)
	(23,623)	8,872
Total income tax expense	\$ (9,984)	\$ 21,360

In fiscal 2019, the Company re-recognized \$19.2 million of previously de-recognized deferred income tax assets in the U.S. relating to deferred income tax assets that are more likely than not to be recovered. In fiscal 2018, pursuant to additional phases to the internal reorganization it began in fiscal 2017, the Company reassessed the recoverability of its deferred income tax assets in the respective jurisdictions affected, resulting in an increase in deferred tax expense of \$6.1 million for assets that were no longer probable of being realized. The fiscal 2018 deferred income tax expense also included \$2.0 million for the revaluation of deferred income tax assets and liabilities due to changes in statutory income tax rates.

18. INCOME TAXES (continued):

Significant components of the Company's deferred income tax assets and liabilities relate to the following temporary differences and unused tax losses:

	December 29, 2019	December 30, 2018
Deferred income tax assets:		
Non-capital losses	\$ 99,504	\$ 85,800
Non-deductible reserves and accruals	12,502	11,395
Property, plant and equipment	12,439	9,227
Other items	8,259	6,039
	132,704	112,461
Unrecognized deferred income tax assets	(83,390)	(85,724)
Deferred income tax assets	\$ 49,314	\$ 26,737
Deferred income tax liabilities:		
Property, plant and equipment	\$ (30,165)	\$ (29,095)
Intangible assets	(9,232)	(10,265)
Deferred income tax liabilities	\$ (39,397)	\$ (39,360)
Deferred income taxes	\$ 9,917	\$ (12,623)

The details of changes to deferred income tax assets and liabilities were as follows:

	2019	2018
Balance, beginning of fiscal year, net	\$ (12,623)	\$ (3,713)
Recognized in the statements of earnings:		
Non-capital losses	14,804	10,367
Non-deductible reserves and accruals	1,107	5,683
Property, plant and equipment	2,142	(5,267)
Intangible assets	1,033	94
Other	2,203	(532)
Changes in tax rates	—	(2,048)
Unrecognized deferred income tax assets	2,334	(17,169)
	23,623	(8,872)
Business acquisitions	(1,100)	—
Other	17	(38)
Balance, end of fiscal year, net	\$ 9,917	\$ (12,623)

As at December 29, 2019, the Company has tax credits, capital and non-capital loss carryforwards, and other deductible temporary differences available to reduce future taxable income for tax purposes representing a tax benefit of approximately \$83.3 million, for which no deferred tax asset has been recognized (December 30, 2018 - \$85.7 million), because the criteria for recognition of the tax asset was not met. The tax credits and capital and non-capital loss carryforwards expire between 2020 and 2039. The recognized deferred tax asset related to loss carryforwards is supported by projections of future profitability of the Company.

The Company has not recognized a deferred income tax liability for the undistributed profits of subsidiaries operating in foreign jurisdictions, as the Company currently has no intention to repatriate these profits. If expectations or intentions change in the future, the Company may be subject to an additional tax liability upon distribution of these earnings in the form of dividends or otherwise. As at December 29, 2019, a deferred income tax liability of approximately \$57 million would result from the recognition of the taxable temporary differences of approximately \$274 million.

19. EARNINGS PER SHARE:

Reconciliation between basic and diluted earnings per share is as follows:

	2019		2018
Net earnings - basic and diluted	\$ 259,809	\$	350,774
Basic earnings per share:			
Basic weighted average number of common shares outstanding	204,161		211,435
Basic earnings per share	\$ 1.27	\$	1.66
Diluted earnings per share:			
Basic weighted average number of common shares outstanding	204,161		211,435
Plus dilutive impact of stock options, Treasury RSUs and common shares held in trust	448		273
Diluted weighted average number of common shares outstanding	204,609		211,708
Diluted earnings per share	\$ 1.27	\$	1.66

Excluded from the above calculation for the year ended December 29, 2019 are 282,737 stock options (2018 - 1,462,933) and 7,500 Treasury RSUs (2018 - nil) which were deemed to be anti-dilutive.

20. DEPRECIATION AND AMORTIZATION:

	2019		2018
Depreciation of property, plant and equipment (note 8)	\$ 117,945	\$	125,797
Depreciation of right-of-use assets (note 9)	13,295		—
Adjustment for the variation of depreciation included in inventories at the beginning and end of the year	3,059		4,940
Amortization of intangible assets, excluding software (note 10)	17,289		22,864
Amortization of software (note 10)	5,206		4,475
Depreciation and amortization included in net earnings	\$ 156,794	\$	158,076

21. SUPPLEMENTAL CASH FLOW DISCLOSURE:
(a) Adjustments to reconcile net earnings to cash flows from operating activities:

	2019	2018
Depreciation and amortization (note 20)	\$ 156,794	\$ 158,076
Restructuring charges related to property, plant and equipment, right-of-use assets, and software (note 17)	13,061	12,394
Loss on disposal of property, plant and equipment and software	1,399	1,124
Share-based compensation	16,272	19,513
Deferred income taxes (note 18)	(23,623)	8,872
Unrealized net (gain) loss on foreign exchange and financial derivatives	(330)	882
Timing differences between settlement of financial derivatives and transfer of deferred gains and losses in accumulated OCI to inventory and net earnings	907	—
Other non-current assets	5,971	(1,445)
Other non-current liabilities	5,097	2,839
	\$ 175,548	\$ 202,255

(b) Variations in non-cash transactions:

	2019	2018
Additions to property, plant and equipment and intangible assets included in accounts payable and accrued liabilities	\$ 16,144	\$ 4,977
Proceeds on disposal of property, plant and equipment included in other current assets	(9)	(86)
Additions to right-of-use assets included in lease obligations	7,753	—
Impact of initial adoption of new accounting standards (note 2(c))	(2,176)	(1,515)
Non-cash ascribed value credited to contributed surplus for dividends attributed to Treasury RSUs	954	754
Non-cash ascribed value credited to share capital from shares issued or distributed pursuant to vesting of restricted share units and exercise of stock options	10,789	6,681

22. RELATED PARTY TRANSACTIONS:

Key management personnel compensation:

Key management personnel includes those individuals that have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and is comprised of the members of the executive management team and the Board of Directors. The amount for compensation expense recognized in net earnings for key management personnel was as follows:

	2019	2018
Short-term employee benefits	\$ 5,338	\$ 8,615
Post-employment benefits	204	2,995
Share-based payments	11,066	12,592
	\$ 16,608	\$ 24,202

The amounts included in accounts payable and accrued liabilities for share-based compensation awards to key management personnel were as follows:

	December 29, 2019	December 30, 2018
DSUs	\$ 6,939	\$ 8,310

Other:

During fiscal 2019, the Company incurred expenses for airplane usage of \$1.4 million (2018 - \$1.2 million), with a company controlled by the President and Chief Executive Officer of the Company. The payments made are in accordance with the terms of the agreement established and agreed to by the related parties. As at December 29, 2019, the amount in accounts payable and accrued liabilities related to the airplane usage was \$0.7 million (December 30, 2018 - \$0.3 million).

23. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES:

(a) Claims and litigation

The Company is a party to claims and litigation arising in the normal course of operations. The Company does not expect the resolution of these matters to have a material adverse effect on the financial position or results of operations of the Company.

(b) Guarantees

The Company, and some of its subsidiaries, have granted financial guarantees, irrevocable standby letters of credit, and surety bonds to third parties to indemnify them in the event the Company and some of its subsidiaries do not perform their contractual obligations. As at December 29, 2019, the maximum potential liability under these guarantees was \$72.6 million (December 30, 2018 - \$55.4 million), of which \$9.3 million was for surety bonds and \$63.3 million was for financial guarantees and standby letters of credit (December 30, 2018 - \$11.1 million and \$44.3 million, respectively).

As at December 29, 2019, the Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for the aforementioned items.

24. CAPITAL DISCLOSURES:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while maintaining a strong credit profile and a capital structure that reflects a target ratio of financial leverage as noted below.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash and cash equivalents. The Company's use of capital is to finance working capital requirements, capital expenditures, business acquisition, payment of dividends, as well as share repurchases. The Company currently funds these requirements out of its internally-generated cash flows and with funds drawn from its long-term debt facilities.

The primary measure used by the Company to monitor its financial leverage is its net debt leverage ratio. The Company's net debt leverage ratio is defined as the ratio of net debt to adjusted EBITDA for the trailing twelve months, on a pro-forma basis to reflect business acquisitions made during the trailing twelve month period, as if they had occurred at the beginning of the trailing twelve month period. Adjusted EBITDA also excludes the impact of the Company's decision in the fourth quarter of fiscal 2019 to implement a strategic initiative to significantly reduce its imprintable product line stock-keeping unit (SKU) count by exiting all ship to-the-piece activities and discontinuing overlapping and less productive styles and SKUs between brands. This initiative is aimed at simplifying the Company's product portfolio and reducing complexity in its manufacturing and warehouse distribution activities. The impact of this strategic initiative includes inventory write-downs and a sales return allowance for anticipated product returns related to discontinued SKUs. The Company has set a fiscal year end net debt leverage target ratio of one to two times adjusted EBITDA. As at December 29, 2019, the Company's net debt leverage ratio was 1.6 times (December 30, 2018 - 1.0 times).

In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, pay dividends or undertake other activities as deemed appropriate under the specific circumstances.

The Board of Directors will consider several factors when deciding to declare quarterly cash dividends, including the Company's present and future earnings, cash flows, capital requirements and present and/or future regulatory and legal restrictions. There can be no assurance as to the declaration of future quarterly cash dividends. Although the Company's revolving facilities, term loan facility, and notes require compliance with lending covenants in order to pay dividends, these covenants have not been and are not currently, a constraint to the payment of dividends under the Company's dividend policy.

The Company paid dividends of \$110.3 million during the year ended December 29, 2019, representing dividends declared per common share of \$0.536. On February 19, 2020, the Board of Directors approved a 15% increase in the amount of the current quarterly dividend and declared a cash dividend of \$0.154 per share for an expected aggregate payment of \$30.7 million which is scheduled to be paid on April 6, 2020 on all of the issued and outstanding common shares of the Company, rateably and proportionately to the holders of record on March 12, 2020. This dividend is an "eligible dividend" for the purposes of the Income Tax Act (Canada) and any other applicable provincial legislation pertaining to eligible dividends.

The Company is not subject to any capital requirements imposed by a regulator.

25. DISAGGREGATION OF REVENUE:

Net sales by major product group were as follows:

	2019	2018
Activewear	\$ 2,261,881	\$ 2,321,395
Hosiery and underwear	562,020	587,170
	\$ 2,823,901	\$ 2,908,565

Net sales were derived from customers located in the following geographic areas:

	2019	2018
United States	\$ 2,399,239	\$ 2,484,877
Canada	114,815	120,764
International	309,847	302,924
	\$ 2,823,901	\$ 2,908,565

26. ENTITY-WIDE DISCLOSURES:

Following an internal reorganization which took effect on January 1, 2018 and resulted in the consolidation of the Company's divisional organizational structure, the Company manages its business on the basis of one reportable operating segment.

Property, plant and equipment, right-of-use-assets, intangible assets, and goodwill, are allocated to geographic areas as follows:

	December 29, 2019	December 30, 2018
United States	\$ 478,620	\$ 455,491
Canada	129,189	132,045
Honduras	385,209	387,301
Caribbean Basin	532,698	544,282
Asia-Pacific	107,482	44,438
Other	47,050	47,853
	\$ 1,680,248	\$ 1,611,410

Customers accounting for at least 10% of total net sales for the fiscal years ended December 29, 2019 and December 30, 2018 were as follows:

	2019	2018
Customer A	18.6%	19.0%
Customer B	13.8%	10.0%

BOARD OF DIRECTORS

DONALD C. BERG
Chair of the Board of Directors
Director since 2015

WILLIAM D. ANDERSON
Director since 2006

MARYSE BERTRAND
Chair of the Corporate Governance and
Social Responsibility Committee
Director since 2018

MARC CAIRA
Director since 2018

GLENN J. CHAMANDY
President and Chief Executive Officer
Director since 1984

SHIRLEY E. CUNNINGHAM
Chair of the Compensation and
Human Resources Committee
Director since 2017

RUSSELL GOODMAN
Chair of the Audit and Finance Committee
Director since December 2010

CHARLES M. HERINGTON
Director since 2018

LUC JOBIN
Director since 2020

CRAIG A. LEAVITT
Director since 2018

ANNE MARTIN-VACHON
Director since 2015

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Toronto Stock Exchange + New York Stock Exchange
Symbol: GIL

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President and Chief Executive Officer

RHODRI J. HARRIES
Executive Vice-President, Chief Financial
and Administrative Officer

MICHAEL R. HOFFMAN
President, Sales, Marketing and Distribution

BENITO A. MASI
President, Manufacturing

CHUCK J. WARD
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ANNUAL MEETING OF SHAREHOLDERS

Thursday, April 30, 2020
At 10:00 AM E.T.
Fairmont The Queen Elizabeth
Conference room: C2 (21st floor)
900 René-Lévesque West Boulevard
Montreal, Qc H3B 4A5
CANADA

AUDITORS

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