



Roots

Annual Report

FISCAL 2020

OUR VISION

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



DISCLAIMER

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

NON-IFRS MEASURES AND INDUSTRY METRICS

This annual report makes reference to certain non-IFRS measures including certain metrics specific to the industry in which we operate. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures are not intended to represent, and should not be considered as alternatives to net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including EBITDA, adjusted EBITDA, adjusted net income and adjusted net income per diluted share. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A under "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics".

FORWARD-LOOKING INFORMATION

Certain information in this annual report contains forward-looking information. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and are made as of April 7, 2021. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements.

See "Cautionary Note Regarding Forward-Looking Information" and "Risks and Uncertainties" in the Company's MD&A and "Forward-Looking Statements" and "Risk Factors" in the Company's AIF dated April 7, 2021, which are available on SEDAR at www.sedar.com, for a discussion of the uncertainties, risks and assumptions associated with these statements. Readers are urged to consider the uncertainties, risks and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. We have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.



“Shopping habits may evolve as we come out of the pandemic; however, comfort, quality, and versatility are always in demand, as Roots has demonstrated for the past 47 years.”

Fellow Shareholders,

On behalf of the Board of Directors, I would like to congratulate the Roots team for everything they achieved in 2020 and thank them for their contribution during what has been a particularly challenging year. COVID-19 caused significant changes in business operations, primarily due to periodic government-mandated store closures and work-from-home directives. However, by leading with the Company’s competitive advantages and taking decisive action early on, Roots delivered enhanced profitability and free cash flow within the year.

In 2020, the Company was operating under a new executive team. There were new leaders in three of the four most senior positions in the organization, including the Chief Executive Officer Meghan Roach, who has been leading the Company since January. With an immediate focus on strengthening the fundamentals of the business, the team closed several unprofitable stores in the U.S., reduced breadth and depth of promotional activity, and tightened overall cost controls. In addition, while prioritizing employee and customer health and safety, Roots seamlessly pivoted between in-store and online, driving impressive eCommerce growth.

Roots also heightened its focus on diversity and inclusion. The commitment to driving impactful and lasting change within its organization and communities runs deep through all levels of the Company. Management and the Roots Diversity Equality Equity and Inclusion Council report directly to the Board on company initiatives and commitments. In addition, through product donations and funds raised through the production of the Company’s made-in-Canada reusable face masks, Roots donated to numerous charitable organizations that support underserved communities across Canada.

This year, as a result of the COVID-19 pandemic, our board members worked closely with management on employee health, safety and wellbeing, effective remote working, enhanced cost controls, liquidity risk management, and maintaining operational resilience. Facilitated by the flexibility of virtual meetings and a culture of openness, our directors significantly increased our engagement with management beyond regularly scheduled meetings, an approach that was invaluable in supporting the Company’s rapid adaptability.

We have also deepened our board experience in fashion and expanded into areas such as sustainability with the recent appointment of accomplished entrepreneur and award-winning fashion industry veteran, Dexter Peart.

While we continue to face the challenges of COVID-19, I expect that better days are ahead. The Board continues to work with management and is confident in their ability to enhance the brand to deliver exceptional products and experiences to our consumers. Shopping habits may evolve as we come out of the pandemic; however, comfort, quality, and versatility are always in demand, as Roots has demonstrated for the past 47 years.

To conclude, I would like to thank the Roots Founders, Michael Budman and Don Green, for their friendship and guidance. I would also like to acknowledge my fellow directors for their insight and commitment to the long-term success of the brand. Finally, I would like to thank our customers for their loyalty and you, our valued shareholders, for your continued support.

Sincerely,



Erol Uzumeri
Chairman of the Board of Directors



“The determination and resilience of the team, the power of the Roots brand, the strength of our omni-channel platform, and our disciplined approach to cost management enabled us to end Fiscal 2020 in a stronger financial position than Fiscal 2019.”

To our Shareholders:

In 2020, we experienced a market disruption unlike anything we have seen during the last 47 years of our operations. With more than 140 million people globally becoming infected with the Coronavirus, individuals around the world meaningfully changed the ways in which they worked and lived. Despite these challenges, the determination and resilience of the team, the power of the Roots brand, the strength of our omni-channel platform, and our disciplined approach to cost management enabled us to end Fiscal 2020 in a stronger financial position than Fiscal 2019. In particular, year-over-year the Company's gross margins increased 470 bps and Adjusted EBITDA rose 48.6%, while free cash flow increased \$34.0 million.

In our major markets, the pandemic resulted in new operating restrictions and government-mandated lockdowns that caused our directly operated stores to be closed for more than 30% of the year and contributed to a 27% decline in Fiscal 2020 revenue compared to Fiscal 2019. However, the shift in personal habits also led to a more rapid casualization of North American wardrobes and high online penetration rates. As a brand known for comfort and quality since 1973 and a company with robust omni-capabilities, demand for our core products rose in 2020 and online sales increased by 50% within the year to 50% of direct-to-consumer sales. Online sales benefited from the one pool of inventory for both retail and eCommerce held at our consolidated distribution center as well as our ability to use stores as fulfillment hubs even during the government-mandated lockdowns.

While eCommerce has played a significant role the past year, we know that stores remain an important part of Roots offering. In 2020, we focused on strengthening our store fleet by closing select locations and obtaining more favourable business terms for others. We also took advantage of more affordable rents and short-term leases during the year to open pop-ups, a strategy that we will continue to employ in 2021.

As a brand known for our comfortable, high-quality products and effortless style, we were well-positioned in 2020 to meet the needs of consumers seeking versatile options for the new realities of work and life. We saw increased demand for our core products and strong sell-through of new products during the year. Even though consumer shopping habits may evolve as we slowly emerge from the pandemic, as we have been demonstrating since 1973, comfort, quality and versatility are always in demand.

The strength of the brand and the product drove us to take a more strategic and disciplined approach to promotions in 2020. We reduced both the overall breadth and depth of promotions throughout the year and notably removed Salt & Pepper sweats, an iconic product that we have been making for over 40 years, from all discounts.

In addition to more promotional discipline, we also tightly managed costs and capital expenditures in Fiscal 2020. By focusing on the return on invested capital, we enabled a \$13.2 million reduction in capital expenditures in the year without postponing important growth initiatives. Further, we reduced selling, general, and administrative expenses by more than 30% owing to better management of wages and corporate costs including rents.



In 2020, the communities in which we live and operate also suffered immensely both from the impacts of the Coronavirus pandemic and issues of social justice. At Roots, community stands as a core pillar of our values, which made both giving back proactively and enhancing our focus on diversity, equality, equity and inclusion priorities for us in 2020. From a charitable aspect, we were able to donate over \$1.5 million in products in 2020 and, by leveraging the success of our non-medical face mask sales, we made more than \$400,000 in cash donations in the year.

We have also made meaningful strides forward in our focus on diversity, equality, equity, and inclusion including establishing a cross-functional council to evaluate and progress important initiatives in this area. Our ultimate ambition is to be a preferred place to work for all, regardless of ethnicity, gender, sexual orientation, or ability, and an ally for social change and representation within the local and global communities in which we operate.

Undoubtedly, 2020 was one of the most challenging years that Roots has faced in our nearly five-decade history. However, we believe we have emerged in a place of strength with a clear path forward as we move into Fiscal 2021. We continue to remain an iconic heritage brand with loyal and engaged customers in our core markets. We have meaningful opportunities for growth globally through our omni-channel offering and, as we demonstrated in 2020, a flexible operating cost base. Roots also has a well-invested, scalable infrastructure, which should continue to lead to an attractive free cash flow profile.

As I reflect on my first year as Chief Executive Officer, I am extremely proud of the Roots team for their hard work in 2020 and their continued commitment to making Roots a desirable global brand.

I would also like to thank our customers for their continued loyalty, as well as our Board of Directors and the Roots Founders, Michael Budman and Don Green, for their support and guidance as we continue to work to deliver on our commitments to you, our valued shareholders.

Sincerely,

Meghan Roach
President & Chief Executive Officer



ROOTS CORPORATION

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

(Fiscal Year Ended January 30, 2021)

The following Management's Discussion and Analysis ("**MD&A**") dated April 7, 2021 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Roots Corporation (together with its consolidated subsidiaries, referred to herein as "**Roots**", the "**Company**", "**us**", "**we**" or "**our**"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and the fiscal year ended January 30, 2021. This MD&A should be read in conjunction with our audited consolidated financial statements for the fiscal year ended January 30, 2021, including the related notes thereto (the "**Annual Financial Statements**").

BASIS OF PRESENTATION

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

All references in this MD&A to "**Q4 2020**" are to our fiscal quarter for the 13-week period ended January 30, 2021, and all references to "**Q4 2019**" are to our fiscal quarter for the 13-week period ended February 1, 2020. All references in this MD&A to "**F2020**" are to the 52-week fiscal year ended January 30, 2021, all references to "**F2019**" are to the 52-week fiscal year ended February 1, 2020, and all references to "**F2018**" are to the 52-week fiscal year ended February 2, 2019.

The Annual Financial Statements and this MD&A were reviewed by our Audit Committee and approved by our Board of Directors (the "**Board**") on April 7, 2021.

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

CAUTIONARY NOTE REGARDING NON-IFRS MEASURES AND INDUSTRY METRICS

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

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

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

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

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

"Adjusted EBITDA" is defined as EBITDA, adjusted for the impact of certain income and expenses that are non-recurring, infrequent-, or unusual in nature and would make comparisons of underlying financial performance between periods difficult. Beginning in the first quarter of F2019 ("**Q1 2019**"), the Company adopted IFRS 16 – *Leases* ("**IFRS 16**") using the modified retrospective approach. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2020, Q4 2019, F2020 and F2019 have been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. We believe that Adjusted EBITDA is useful, to both management and investors, in assessing the underlying performance of our ongoing operations and our ability to generate cash flows to fund our cash requirement.

“Adjusted Net Income (Loss)” is defined as net income (loss), adjusted for the impact of certain income and expenses that are non-recurring, infrequent-, or unusual in nature, and would make comparisons of underlying financial performance between periods difficult, net of related tax effects. Beginning in Q1 2019, the Company adopted IFRS 16 using the modified retrospective approach. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted Net Income (Loss) for Q4 2020, Q4 2019, F2020 and F2019 have been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. We believe that Adjusted Net Income (Loss) is useful, to both management and investors, in assessing the underlying performance of our ongoing operations.

“Adjusted Net Income (Loss) per Share” is defined as Adjusted Net Income (Loss), divided by the weighted average common shares outstanding during the periods presented. Beginning in Q1 2019, the Company adopted IFRS 16 using the modified retrospective approach. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted Net Income (Loss) for Q4 2020, Q4 2019, F2020 and F2019 have been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. We believe that Adjusted Net Income (Loss) per Share is useful, to both management and investors, in assessing the underlying performance of our ongoing operations, on a per share basis.

“Comparable Sales Growth (Decline)” is a retail industry metric used to compare the percentage change in sales derived from mature stores and eCommerce, in a certain period, compared to the prior year sales from the same stores and eCommerce, over the same time period of the prior fiscal year. We believe Comparable Sales Growth (Decline) helps explain our sales growth (or decline) in established stores and eCommerce, which may not otherwise be apparent when relying solely on year-over-year sales comparisons. Comparable Sales Growth (Decline) is calculated based on sales (net of a provision for returns) from stores that have been open for at least 52 weeks in our DTC segment, including eCommerce sales (net of a provision for returns) in our DTC segment, and excludes sales fluctuations during store renovations and material external events and circumstances that make comparisons of year-over-year results less meaningful (including the impact of the COVID-19 pandemic, as further described below).

Comparable Sales Growth (Decline) also excludes the impact of foreign currency fluctuations by applying the prior year’s U.S. dollar to Canadian dollar exchange rates to both current year and prior year comparable sales to achieve a consistent basis for comparison. Our Comparable Sales Growth (Decline) may be calculated differently compared to other companies.

Commencing in the first quarter of F2020 (“**Q1 2020**”), the Company’s DTC segment was significantly impacted by COVID-19. Due to the negative impacts that COVID-19 has had on the apparel retail operating environment, including periods of temporary store closures, phased re-openings and retail store operating limitations, the Company does not believe that Comparable Sales Growth (Decline) is a representative metric of Q4 2020 and F2020 performance. Accordingly, this MD&A does not include a discussion of the Company’s Comparable Sales Growth (Decline) in respect of Q4 2020 and F2020. Management will continue to monitor and evaluate the effects of COVID-19 and will resume the evaluation of Comparable Sales Growth (Decline) when year-over-year results are no longer significantly impacted by COVID-19. See also “Key Business Developments – COVID-19”.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the “Risks and Uncertainties” section of this MD&A and in the “Risk Factors” section of our annual information form (“AIF”). A copy of the AIF can be accessed under our profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com and on our website at www.roots.com. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking information is to provide the reader with a description of management’s current expectations regarding the Company’s financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking information contained herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking information contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW

Established in 1973, Roots is a premium outdoor lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products designed for life's everyday adventures, including women's and men's apparel, leather goods, footwear, accessories, and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As at January 30, 2021, we operated 111 corporate retail stores in Canada, two corporate retail stores in the United States, 117 partner-operated stores in Taiwan, 26 partner-operated stores in China, two partner-operated stores in Hong Kong, and a global eCommerce platform, roots.com. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

On October 14, 2015, Searchlight Capital Partners, L.P. ("**Searchlight**") incorporated Roots Corporation under the laws of Canada and its subsidiary, Roots USA Corporation, under the laws of the State of Delaware. Pursuant to a purchase and sale agreement dated October 21, 2015, Roots and its subsidiaries acquired substantially all of the assets of Roots Canada Ltd., former wholly-owned subsidiary Roots U.S.A., Inc. (refer to "Key Business Developments – RTS USA Corp. Chapter 7 Filing"), Roots America L.P., entities controlled by our founders Michael Budman and Don Green (the "**Founders**"), and all of the issued and outstanding shares of Roots International ULC, effective December 1, 2015 (the "**Acquisition**").

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

KEY BUSINESS DEVELOPMENTS

COVID-19

In December 2019, COVID-19 surfaced in Wuhan, China, spreading quickly, resulting in the World Health Organization declaring a global emergency on January 30, 2020 with respect to the outbreak, which was subsequently characterized as a pandemic on March 11, 2020, leading many countries to take drastic measures to manage the spread of the virus. The worldwide pandemic, along with ensuing recommendations and restrictions imposed by government authorities to help curb the spread of COVID-19, has significantly impacted the operations and financial performance of the Company.

Operational Response

In March 2020, we temporarily closed our corporate retail stores in Canada and the United States in response to COVID-19, prioritizing the health and safety of our customers and employees and helping to manage the spread of the virus. In accordance with local government and health organization guidelines, we began a phased reopening of our corporate retail stores, under reduced operating hours and other procedural and capacity provisions, starting on May 15, 2020. During Q4 2020, in response to a second wave of government mandated lockdowns, we temporarily closed our corporate retail stores within certain regions of Canada. As of January 30, 2021, 69 of our corporate retail stores in Ontario and Québec remained temporarily closed under local government guidelines. We will continue to adhere to all future guidelines provided by the local government and health organizations. See also "Subsequent Events" for further details on store closures in relation to COVID-19.

As permitted by government regulations, through the pandemic we continue to operate our global eCommerce business and our distribution centre, with strict cleaning protocols and social distancing measures in place. We have also continued to operate our wholesale, business-to-business and licensing business, as well as our head office functions under a “work-from-home” model. In addition, we repurposed a portion of our Company-operated leather factory for non-medical face mask production and donated a portion of the proceeds to charitable organizations across Canada.

In March 2020, our international operating partner in Asia temporarily closed select stores in China and reduced hours across the remainder of its store portfolio in China, Hong Kong, and Taiwan. All Roots stores operated by our international operating partner in Asia were reopened during Q1 2020.

Financial Performance & Liquidity Impact

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

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

- Substantially reduced selling, general and administrative expenses (“**SG&A expenses**”), capital expenditures and discretionary spending across all areas of the business;
- Realized personnel cost savings related to temporary layoffs as a result of store closures, temporary reductions in compensation to the Board and head office employees, hiring and salary freezes, and the elimination of F2019 bonuses;
- Reduced and adjusted forward inventory purchases;
- Worked closely with our partners and suppliers, as well as service and logistics providers, to identify further areas of cost reduction and/or payment deferral;
- Worked with our landlords to abate or defer a portion of our corporate retail store rent during the store shut down and/or subsequent periods; and
- Evaluated, qualified and applied for applicable government relief programs, including the Canada Emergency Wage Subsidy (“**CEWS**”) program and the Canada Emergency Rent Subsidy (“**CERS**”) program. See Note 20 in our Annual Financial Statements for further details.

As a result of the strategies mentioned above, we have reduced and managed our costs across all areas of the business. We have been able to effectively manage our liquidity with a 53% year-over-year increase in available liquidity as at the end of F2020 and a reduction of our leverage from 3.7x Adjusted EBITDA in F2019 to 1.6x Adjusted EBITDA in F2020.

Risks beyond F2020

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

- Consumer demand will be the most significant issue amidst the uncertainty in the global economy, negatively impacting our corporate retail stores, as well as the businesses of our international operating partner and our North American wholesale and retail partners. Regions that previously had higher densities of tourism and/or commercial urban traffic will experience a greater negative impact and slower recovery;
- While eCommerce sales have fared better than retail, we may nevertheless suffer significant sales losses as overall customer demand and consumer spending is expected to continue to decline, as compared to F2019, in response to COVID-19 and the related global economic impacts;
- Social distancing restrictions to protect the safety of our customers and employees may limit both the number of customers we can serve at our corporate retail stores during peak selling periods, and the volume of goods we are able to manufacture and fulfill through our leather factory and distribution centre, respectively. More severe government-imposed restrictions, including store capacity restrictions and future lockdowns, could further restrict our ability to service our customers. See also “Subsequent Events” for further discussion on store closures in relation to COVID-19;
- Cases of COVID-19 infection that arise at our corporate retail stores, leather factory, distribution centre, or head office may disrupt our operations, which could lead to lost sales and/or additional costs;
- We may also face challenges through our supply chain network if there are disruptions in service at our distribution centre, third-party logistics fulfillment partners, suppliers, manufacturing facilities and/or logistics providers. Increased market demand for certain third-party services may also increase our operating costs and/or limit our ability to fulfill sales;
- We may face restrictions on our ability to transport goods from our international suppliers due to international restrictions on free movement; and
- The costs of operating our stores, leather factory and distribution centre may increase as a result of enhanced health and safety measures taken to protect our employees, including the provision of personal protective equipment.

While the full extent of the impact of COVID-19 on the Company’s business remains unclear, we believe that the cost reductions and liquidity management strategies employed will partially mitigate the above risks to our financial performance. The Company expects to have access to borrowings and other forms of support to be made available to businesses impacted by this pandemic. However, to the extent that COVID-19 continues, or further public restrictions are imposed by the government, the degree to which the Company’s operations could be affected may increase.

RTS USA Corp. Chapter 7 Filing

From F2018 to F2020, we opened seven corporate retail stores in the United States, including two stores in the Greater Boston Area, three in the Washington D.C. area, one in Chicago and a pop-up location in Woodbury Commons, New York (the “**New U.S. stores**”). In aggregate, we incurred an Adjusted EBITDA loss of \$(6,067) in F2019 pertaining to these stores and our corporate retail store on Elizabeth Street in New York that was closed in the third quarter of F2019 (“**Q3 2019**”), primarily driven by sales that were well below expectations.

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

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

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

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

In F2020, the Company incurred an Adjusted EBITDA loss of \$(2,144), pertaining to the operations of the New U.S. stores prior to their closure, compared to an Adjusted EBITDA loss of \$(6,067) in F2019. F2019 figures also include losses associated with our corporate retail store on Elizabeth Street in New York that was closed in Q3 2019.

FACTORS AFFECTING OUR PERFORMANCE

We believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which we discuss below. See also the “Risks and Uncertainties” section of this MD&A and the “Risk Factors” section of our AIF.

Brand Awareness

The Roots brand is well-known in Canada and Taiwan, with locations also in the United States, mainland China and Hong Kong. Any loss of brand appeal from factors such as changing consumer trends and increased competition may adversely affect our business and financial results. To address this, we focus on building our brand and strengthening our brand voice through innovative, impactful brand initiatives as well as delivering customer insight-driven

product designs. In addition, we work to best position our brand and business globally by leveraging the operational investments that we have made and growing our omni-channel footprint.

Our Omni-Channel Business

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

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

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

As eCommerce continues to become a larger component of our omni-channel footprint, we depend on third-party logistics partners to fulfill sales transactions with our customers in a dependable and timely manner. Changes in geographic coverage, service levels, capacity levels, and labour disruptions at our logistics partners may adversely affect our business and financial results. We continue to work with our third-party logistics partners to ensure that options are available in order to mitigate the risk of a disruption to delivery services.

During F2019, we relocated from two separate facilities – our legacy retail-only distribution centre and our third-party online order fulfillment and distribution facility – to a single fully-integrated Roots-operated distribution centre (the “**DC Relocation Project**”). As of Q3 2019, we completed the transition such that all retail store distribution and eCommerce fulfillment is now completed at this single Roots-operated facility. Being able to fulfill centrally enables us to more effectively scale and execute our omni-channel strategy. Conversely, any failure of our new distribution centre to meet the demands of the Company, or to keep pace with our growth, could have a material adverse effect on our business and financial results. See also “Key Business Developments – COVID-19”.

Our International Operating Partner

Much of the success of our international business is dependent on the performance of our international operating partner’s retail operations. Our ability to continue to recognize wholesale sales of Roots-branded products to our partner and to generate royalty revenue from our partner’s retail sales of Roots-branded products depends on our partner continuing to grow its business. Our partner’s ability to successfully execute on its multi-channel strategy and our ability to support our partner in this growth will impact the performance of our business. Our partner’s sales are also impacted by shifts in economic conditions in the regions in which it operates that are beyond our and our partner’s control, including: employment rates; consumer confidence levels;

consumer debt; and interest rates, all of which could limit the disposable income and discretionary spending levels of consumers. See also “Key Business Developments – COVID-19”.

Product Development and Merchandising

Our sales are driven primarily from major Canadian markets during the fall and winter months. However, we are not defined by one product, season, geography, or demographic. With nearly five decades of product leadership, our product range is diversified and comprised of apparel, leather goods, accessories and footwear. Serving as the foundation of our distinct identity, many of our enduring icons have been in our product assortment for decades and remain favourites among customers today.

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

Our business is affected by our ability to continue to develop products that resonate with consumers and we are working to accelerate our product development as we continue to introduce products to mitigate the seasonal nature of our business (as further described below) and expand our addressable geographic market. See also “Key Business Developments – COVID-19”.

Foreign Exchange

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

Seasonality

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

First fiscal quarter	14%
Second fiscal quarter	16%
Third fiscal quarter	27%
Fourth fiscal quarter	43%
Annual Total	<u>100%</u>

Weather

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

Consumer Trends

Our success largely depends on our ability to anticipate and respond to shifts in consumer trends, demands and preferences in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to adequately respond to changing consumer trends, our sales could be adversely impacted, or we could experience higher inventory markdowns which could decrease our profitability. This is mitigated by our focus on continuous product development to create products that resonate with our consumers, our diverse product range across multiple categories, and the fact that our enduring icons have remained favourites of our customers for decades and continue to be customer favourites today. Our sales are also impacted by shifts in economic conditions that are beyond our control, such as: employment rates; consumer confidence levels; consumer debt; and interest rates, all of which could limit the disposable income and discretionary spending levels of consumers. See also “Key Business Developments – COVID-19”.

SEGMENTS

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

Our DTC and Partners and Other segments contributed 86.6% and 13.4% of our sales, respectively, in F2020 (F2019 – 87.2% and 12.8% of our sales, respectively).

SUMMARY OF FINANCIAL PERFORMANCE

We refer the reader to the sections entitled “Components of our Results of Operations”, “Factors Affecting our Performance” and “Cautionary Note Regarding Non-IFRS Measures and Industry Metrics” in this MD&A for the definition of the items discussed below and, when applicable, to the section entitled “Reconciliation of Non-IFRS Measures” for reconciliations of non-IFRS measures with the most directly comparable IFRS measure. Unless otherwise indicated, financial information includes the impact of the implementation of IFRS 16.

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

CAD \$000s (except per share data)	Q4 2020	Q4 2019	F2020	F2019	F2018 ⁽¹⁾
Statement of Net Income (Loss) Data:					
Sales	99,397	127,453	240,506	329,865	329,028
Gross profit	58,854	69,290	139,739	176,189	188,490
Gross margin	59.2%	54.4%	58.1%	53.4%	57.3%
Selling, general and administrative expenses	39,009	69,445	114,807	188,308	166,790
Goodwill impairment	–	44,799	–	44,799	–
Gain from deconsolidation of RTS USA Corp. ⁽²⁾	–	–	4,774	–	–
Net income (loss)	12,344	(44,577)	13,080	(62,029)	11,400
Basic earnings (loss) per share	\$0.29	\$(1.06)	\$0.31	\$(1.47)	\$0.27
Diluted earnings (loss) per share	\$0.29	\$(1.06)	\$0.31	\$(1.47)	\$0.27
Non-IFRS Measures and Other Performance Measures:					
Corporate retail stores, end of period	113	122	113	122	121
Adjusted DTC Gross Profit ⁽³⁾	55,681	65,957	128,142	162,630	173,816
Adjusted DTC Gross Margin ⁽³⁾	60.7%	55.4%	61.5%	56.5%	61.2%
Adjusted EBITDA ⁽³⁾	26,091	26,053	38,748	26,068	41,903
Adjusted Net Income ⁽³⁾	16,272	13,269	16,511	4,018	20,179
Adjusted Net Income per Share ⁽³⁾	\$0.39	\$0.31	\$0.39	\$0.10	\$0.48

Note:

- (1) On February 3, 2019, the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, F2018 figures have not been restated. Excluding the impacts of IFRS 16 and non-cash fixed asset impairment, SG&A expenses were: \$37,226 in Q4 2020, \$48,245 in Q4 2019, \$117,345 in F2020, \$170,536 in F2019, and \$165,415 in F2018. See “Results of Operations” for further discussion on year-over-year variances on SG&A expenses.
- (2) See “Key Business Developments - RTS USA Corp. Chapter 7 Filing”.
- (3) Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Share are non-IFRS measures. See “Cautionary Note Regarding Non-IFRS Measures and Industry Metrics” for a description of these measures.

Selected Financial Results for Q4 2020 Compared to Q4 2019

- Total sales decreased by \$28,056, or 22.0%, to \$99,397 in Q4 2020, from \$127,453 in Q4 2019.
 - DTC sales decreased by \$27,289, or 22.9%, to \$91,761 in Q4 2020, from \$119,050 in Q4 2019.
 - Partners and Other sales decreased by \$767, or 9.1%, to \$7,636 in Q4 2020, from \$8,403 in Q4 2019.
- Gross profit decreased by \$10,436, or 15.1%, to \$58,854 in Q4 2020, from \$69,290 in Q4 2019.

- DTC gross profit decreased by \$10,814, or 16.5%, to \$54,846 in Q4 2020, and as a percentage of sales (“**DTC gross margin**”) increased to 59.8% in Q4 2020, from 55.2% in Q4 2019.
- Adjusted DTC Gross Profit⁽¹⁾ decreased by \$10,276, or 15.6%, to \$55,681 in Q4 2020, and Adjusted DTC Gross Margin⁽¹⁾ increased to 60.7% in Q4 2020, from 55.4% in Q4 2019.
- Recorded no goodwill impairment in Q4 2020, compared to a goodwill impairment of \$44,799 in Q4 2019.
- SG&A expenses decreased by \$30,436, or 43.8%, to \$39,009 in Q4 2020, from \$69,445 in Q4 2019. SG&A expenses includes a fixed asset impairment of \$886 in Q4 2020 and \$19,183 in Q4 2019.
- Adjusted EBITDA⁽¹⁾ increased by \$38, or 0.1%, to \$26,091 in Q4 2020, from \$26,053 in Q4 2019.
- Net income (loss) increased by \$56,921 to a net income of \$12,344 in Q4 2020, from a net loss of \$(44,577) in Q4 2019.
- Adjusted Net Income⁽¹⁾ increased by \$3,003 to \$16,272 in Q4 2020, from \$13,269 in Q4 2019.
- Basic earnings (loss) per Share increased to \$0.29 in Q4 2020, from \$(1.06) in Q4 2019.
- Adjusted Net Income per Share⁽¹⁾ increased to \$0.39 in Q4 2020, from \$0.31 in Q4 2019.

Selected Financial Results for F2020 Compared to F2019

- Total sales decreased by \$89,359, or 27.1%, to \$240,506 in F2020, from \$329,865 in F2019.
 - DTC sales decreased by \$79,532, or 27.6%, to \$208,230 in F2020, from \$287,762 in F2019.
 - Partners and Other sales decreased by \$9,827, or 23.3%, to \$32,276 in F2020, from \$42,103 in F2019.
- Gross profit decreased by \$36,450, or 20.7%, to \$139,739 in F2020, from \$176,189 in F2019.
 - DTC gross profit decreased by \$34,528, or 21.3%, to \$127,262, and DTC gross margin increased to 61.1% in F2020, from 56.2% in F2019.
 - Adjusted DTC Gross Profit⁽¹⁾ decreased by \$34,488, or 21.2%, to \$128,142 in F2020, and Adjusted DTC Gross Margin⁽¹⁾ increased to 61.5% in F2020, from 56.5% in F2019.
- SG&A expenses decreased by \$73,501, or 39.0%, to \$114,807 in F2020, from \$188,308 in F2019. SG&A expenses includes a fixed asset impairment of \$886 in F2020 and \$19,183 in F2019.

- Recorded no goodwill impairment in F2020, compared to goodwill impairment of \$44,799 in F2019.
- A net gain of \$4,774 was recorded in F2020, related to the deconsolidation RTS USA Corp., compared to \$nil in F2019. See “Key Business Developments – RTS USA Corp. Chapter 7 Filing”.
- Adjusted EBITDA⁽¹⁾ increased by \$12,680, or 48.6%, to \$38,748 in F2020, from \$26,068 in F2019. Adjusted EBITDA was 16.1% of sales in F2020, increasing from 7.9% of sales in F2019.
- Net income (loss) increased by \$75,109 to a net income of \$13,080 in F2020, from a net loss of \$(62,029) in F2019.
- Adjusted Net Income⁽¹⁾ increased by \$12,493 to \$16,511 in F2020, from \$4,018 in F2019. Adjusted Net Income was 6.9% of sales in F2020, increasing from 1.2% of sales in F2019.
- Basic earnings per Share was \$0.31 in F2020, up from basic loss per Share of \$(1.47) in F2019.
- Adjusted Net Income per Share⁽¹⁾ increased to \$0.39 in F2020 from \$0.10 in F2019.

Key Operational Developments

Real Estate

During F2020, in North America, we relocated two corporate retail stores, completed major renovations on one of our existing corporate retail stores, opened six temporary pop-up locations in Ontario, and closed three corporate retail stores in Canada as we continue to optimize our real estate portfolio. During F2020, we also closed seven of our U.S. stores as part of the Chapter 7 filing of RTS USA Corp. (see “Key Business Developments – RTS USA Corp. Chapter 7 Filing”).

In Q4 2020, we:

- opened two temporary pop-up locations in Ontario;
- closed our South Keys store in Ottawa, Ontario; and
- closed our Kenaston store in Winnipeg, Manitoba.

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

	Q4 2020	Q4 2019	F2020	F2019
Number of stores, beginning of period	115	122	122	121
New stores	–	1	–	5
Closed stores	2	1	9	4
Number of stores, end of period	113	122	113	122
Stores renovated or relocated	–	–	3	6

Note:

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

International Partnership

During F2020, our international partner had a net increase of three stores in Taiwan. In China, a comparatively newer and very small market for Roots, our international partner had a net decrease of 10 stores. The net decline in China store count is reflective of a transition to a digitally-led strategy, a shift that we expect to undertake over the course of fiscal 2021 to better position the Company to execute on the market opportunity in China. In Hong Kong, our international partner had a net increase of one store.

With shorter lease terms and rapidly changing market dynamics in Asia, our international partner will continue to optimize its overall store portfolio, including choosing not to renew leases for certain locations. During F2020, our international partner opened six new stores and closed three stores in Taiwan, opened two stores and closed 12 stores in China and opened one store in Hong Kong. At the end of F2020, we had 117 partner-operated stores in Taiwan, 26 partner-operated stores in China, and two partner-operated stores in Hong Kong.

COMPONENTS OF OUR RESULTS OF OPERATIONS

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

Sales

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

Sales in our Partners and Other segment consist primarily of wholesale sales to our international partner and other corporate customers, and royalty revenue earned from the retail sale of Roots-branded products by our international partner and other third-party licensees. Wholesale sales from the sale of goods are recognized when the performance obligations of goods delivery have been passed to the customer which, depending on the specific contractual terms of each customer, is either at the time of shipment or receipt. Contractually, our international partner and wholesale partners are unable to return goods purchased from us. Royalty sales are earned and recognized on an accrual basis in accordance with the various contractual agreements, at the later of (i) sales of licensed goods as reported by our international partner and other third-party licensees, and (ii) when all performance obligations pertaining to the royalty have been satisfied.

Gross Profit

Gross profit is sales less cost of goods sold. Cost of goods sold includes the cost of purchasing products from manufacturers, including direct purchase costs, freight costs, and duty and non-refundable taxes. For select leather products manufactured by us in-house, cost of goods sold includes the cost of manufacturing our products, including raw materials, direct labour and overhead, plus freight costs. Cost of goods sold also includes variable distribution centre costs incurred to prepare our inventory for sale. Commencing in Q3 2019, as a result of our transition to a single Roots-operated distribution centre in connection with the DC Relocation Project, cost of goods sold also includes variable distribution centre costs incurred to fulfill our eCommerce

orders. Previously, eCommerce order fulfillment costs, incurred through our third-party online order fulfillment and distribution facility, were recorded in SG&A expenses. The CEWS received associated with our distribution centre and leather factory employee compensation has been recorded as an increase to gross profit in respect of F2020.

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

The primary driver of our cost of goods sold is the cost of purchased products from our manufacturers, which is predominantly sourced in U.S. dollars. The Company utilizes a hedging program to manage its foreign currency risk related to U.S. dollar inventory purchases. See “Financial Instruments”.

Selling, General and Administrative Expenses

SG&A expenses consist of selling costs to market and deliver our products, depreciation of store and eCommerce assets, non-cash fixed asset and ROU asset impairments, and costs incurred to support the relationships with our retail partners, wholesale distributors, and licensees. SG&A expenses also include our marketing and brand investment activities, and the corporate infrastructure required to support our ongoing business.

Selling costs as a percentage of sales is usually higher in the lower-volume first and second quarters of a fiscal year, and lower in the higher-volume third and fourth quarters of a fiscal year because a substantial portion of these costs are relatively fixed.

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

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

In F2020, the CEWS received associated with our corporate retail store and head office employee compensation has been recorded as a reduction to the eligible remuneration expenses within SG&A expenses.

Interest Expense

Interest expense relates to interest accrued on our lease liabilities and our Credit Facilities (as defined below). See “Indebtedness”.

Income Taxes

We are subject to income taxes in the jurisdictions in which we operate and, consequently, income taxes expense or recovery is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. The primary regions that determine the effective income tax rate are Canada and the United States. Over the long-term, we expect our annual effective income tax rate to be, on average, approximately 27-28%, subject to changes to income tax rates and legislation in the jurisdictions in which we operate.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below for F2020 and F2019 has been derived from our Annual Financial Statements. The selected consolidated financial information set out below for Q4 2020 and Q4 2019 is unaudited.

CAD \$000s	Q4 2020	Q4 2019	F2020	F2019
Sales	99,397	127,453	240,506	329,865
Cost of goods sold	40,543	58,163	100,767	153,676
Gross Profit	58,854	69,290	139,739	176,189
Selling, general and administrative expenses	39,009	69,445	114,807	188,308
Goodwill impairment	–	44,799	–	44,799
Gain from deconsolidation of RTS USA Corp.	–	–	4,774	–
Income (loss) before interest expense and income taxes expense (recovery)	19,845	(44,954)	29,706	(56,918)
Interest expense	2,421	3,962	11,741	15,567
Income (loss) before taxes	17,424	(48,916)	17,965	(72,485)
Income taxes expense (recovery)	5,080	(4,339)	4,885	(10,456)
Net income (loss)	12,344	(44,577)	13,080	(62,029)
Basic earnings (loss) per Share	\$0.29	\$(1.06)	\$0.31	\$(1.47)
Diluted earnings (loss) per Share	\$0.29	\$(1.06)	\$0.31	\$(1.47)

The following table provides selected balance sheet information for the periods indicated:

Consolidated Statement of Financial Position Data:

CAD \$000s (except per Share amounts)	As at January 30, 2021	As at February 1, 2020
Current assets.....	\$61,869	\$53,677
Non-current assets.....	298,364	387,097
Current liabilities	65,163	67,208
Non-current liabilities	160,980	223,060
Net working capital.....	21,094	26,465
Shareholders' equity	164,180	150,506

RESULTS OF OPERATIONS

Analysis of Results for Q4 2020 as compared to Q4 2019 and F2020 as compared to F2019

The following section provides an overview of our financial performance during Q4 2020 compared to Q4 2019 and during F2020 compared to F2019.

Sales

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

CAD \$000s	Q4 2020	Q4 2019	% Change	F2020	F2019	% Change
DTC.....	91,761	119,050	(22.9)%	208,230	287,762	(27.6)%
Partners and Other	7,636	8,403	(9.1)%	32,276	42,103	(23.3)%
Total Sales.....	99,397	127,453	(22.0)%	240,506	329,865	(27.1)%

Total sales were \$99,397 in Q4 2020 as compared to \$127,453 in Q4 2019, representing a decrease of \$28,056, or 22.0%.

DTC sales decreased \$27,289, or 22.9%, in Q4 2020 as compared to Q4 2019. The year-over-year decline in Q4 2020 DTC sales was primarily a result of COVID-19, in particular pandemic-related temporary store closures in response to government mandated lockdowns (stores were closed for 35% of Q4 2020), traffic declines, capacity limitations, and reduced operating hours (see “Key Business Developments – COVID-19”). This decline was partially offset by eCommerce sales that grew by more than 60% year-over-year.

Sales in the Partners and Other segment decreased by \$767, or 9.1%, in Q4 2020 as compared to Q4 2019, reflecting negative COVID-19 impacts. The Company’s international partner in Asia reduced its wholesale purchases, as it managed inventory levels in response to pandemic-related temporary store closures and traffic declines. In addition, the pandemic drove a decline in demand in the Company’s licensing and wholesale businesses, resulting in a year-over-year decrease in licensing sales and wholesale orders.

Total sales were \$240,506 in F2020 as compared to \$329,865 in F2019, representing a decrease of \$89,359, or 27.1%.

F2020 sales in the DTC segment decreased by \$79,532, or 27.6%, as compared to F2019. The year-over-year decline in F2020 DTC sales was predominately a result of COVID-19, including pandemic-related temporary store closures (stores were closed for 31% of F2020), traffic declines, capacity limitations, and reduced store operating hours (see “Key Business Developments – COVID-19”), which were partially offset by eCommerce sales that grew by more than 50% year-over-year.

Sales in the Partners and Other segment decreased by \$9,827, or 23.3%, during F2020 as compared to F2019, reflecting negative COVID-19 impacts. The year-over-year decline was a result of the aforementioned factors described above.

Gross Profit

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

CAD \$000s	Q4 2020	Q4 2019	% Change	F2020	F2019	% Change
DTC	54,846	65,660	(16.5)%	127,262	161,790	(21.3)%
Partners and Other	4,008	3,630	10.4%	12,477	14,399	(13.3)%
Total Gross Profit	58,854	69,290	(15.1)%	139,739	176,189	(20.7)%

Gross profit as a percentage of sales	Q4 2020	Q4 2019	F2020	F2019
DTC	59.8%	55.2%	61.1%	56.2%
Partners and Other	52.5%	43.2%	38.7%	34.2%
Total Gross Margin	59.2%	54.4%	58.1%	53.4%

Gross profit was \$58,854 in Q4 2020, as compared to \$69,290 in Q4 2019, representing a decrease of \$10,436, or 15.1%.

Gross profit in the DTC segment decreased \$10,814, or 16.5%, in Q4 2020 as compared to Q4 2019. The decrease in gross profit in the DTC segment was driven by lower sales in the DTC segment, partially offset by a higher gross margin on those sales. DTC gross margin was 59.8% in Q4 2020, up from 55.2% in Q4 2019. The 460 basis point improvement was predominantly a result of the decision to decrease promotional breadth and depth year-over-year. While the reductions in promotions likely placed some downward pressure on sales in the short term, we believe it is beneficial to the brand and profitability of the business over the long term. Gross margin also reflects the benefit of CEWS of \$206 recognized in Q4 2020 DTC gross margin (of the total \$1,559 in CEWS recognized in Q4 2020).

Gross profit in the Partners and Other segment increased by \$378, or 10.4%, in Q4 2020 as compared to Q4 2019. The increase in gross profit in the Partners and Other segment was attributable to higher gross margin on sales to our domestic and international partners.

Gross profit was \$139,739 in F2020, as compared to \$176,189 in F2019, representing a decrease of \$36,450, or 20.7%.

During F2020, gross profit in the DTC segment decreased by \$34,528, or 21.3%, as compared to F2019. The decrease in gross profit in the DTC segment was driven by lower sales in the DTC segment, partially offset by a higher gross margin on those sales. DTC gross margin was 61.1% in F2020, up from 56.2% in F2019. The 490 basis point improvement was predominantly a result of the decision to decrease promotional breadth and depth year-over-year and a shift in mix toward higher margin products. These factors were partially offset by the reclassification of certain costs into cost of goods sold from SG&A expenses with the Company's transition to in-house fulfillment of all eCommerce orders. Gross margin also reflects the benefit of CEWS of \$1,607 recognized in F2020 DTC gross margin (of the total \$12,822 in CEWS recognized in F2020).

During F2020, gross profit in the Partners and Other segment decreased by \$1,922, or 13.3%, as compared to F2019. The decrease in gross profit in the Partners and Other segment was driven by the decline in sales.

Selling, General and Administrative Expenses

SG&A expenses were \$39,009 in Q4 2020 as compared to \$69,445 in Q4 2019, representing a decrease of \$30,436, or 43.8%. In Q4 2020, we recorded a non-cash fixed asset impairment of \$886, compared to \$19,183 in Q4 2019, of which \$12,738 was related to our New U.S. stores. Excluding the non-cash fixed asset impairment, SG&A expenses declined \$12,139, or 24.2%, in Q4 2020 as compared to Q4 2019.

The year-over-year decrease in SG&A expenses predominantly reflects:

- savings of \$7,268 driven by the Company's efforts to reduce costs across all areas of the business in response to COVID-19, including a decrease in store wages as a result of reduced store operating hours and labour managed in accordance with store sales, management of overall corporate costs and rent savings of \$1,709;
- government grants received of \$696 in CERS and \$1,559 in CEWS, of which \$1,200 was recorded as a reduction to SG&A expenses, \$153 as a reduction to capitalized labour at our leather factory, and \$206 as a reduction to cost of sales; and
- savings of \$2,975 related to our U.S. business, predominantly as a result of the permanent closure of the New U.S. stores in Q1 2020.

SG&A expenses were \$114,807 during F2020 as compared to \$188,308 in F2019, representing a decrease of \$73,501, or 39.0%. Excluding the aforementioned non-cash fixed asset impairment, SG&A expenses decreased \$55,204, or 32.6%, in F2020 as compared to F2019.

The year-over-year decrease predominantly reflects:

- savings of \$37,522 driven by the Company's efforts to reduce costs across all areas of the business as a result of COVID-19, including lower overall store wages as a result of government-mandated temporary store closures, reduced store operating hours and labour managed in accordance with store sales, as well as the management of overall corporate costs, including rent savings of \$7,476;
- government grants received of \$696 in CERS and \$12,822 in CEWS, of which \$9,639 was recorded as a reduction to SG&A expenses, \$1,576 as a reduction to capitalized labour at our leather factory, and \$1,607 as a reduction to cost of sales; and
- savings of \$7,347 related to our U.S. business, predominantly as a result of the permanent closure of the New U.S. stores in Q1 2020.

These savings were partially offset by \$1,283 of incremental costs incurred in relation to the Chapter 7 filing of RTS USA Corp. (see "Key Business Developments – RTS USA Corp. Chapter 7 Filing").

Goodwill Impairment

During Q4 2020 and F2020, the Company recorded a goodwill impairment of \$nil, as compared to \$44,799 in Q4 2019 and F2019. The goodwill balance was previously recognized as a result of the Company's acquisition of assets from Roots Canada Ltd., former wholly-owned subsidiary Roots U.S.A. Inc. (now RTS USA Corp.), Roots America L.P., entities controlled by our founders

Michael Budman and Don Green, and all of the issued and outstanding shares of Roots International ULC, effective December 1, 2015. The Company performs an annual impairment assessment of goodwill by comparing the carrying value of each cash generating unit (“CGU”) group to the recoverable amount of the CGU group. The recoverable amount is based on the higher of the fair value less cost to sell (“FVLCS”) and the value-in-use (“VIU”). In F2019, the goodwill impairment pertained to the DTC CGU and was driven by more conservative forward-looking growth assumptions, as a result of trends and shortfalls against past projections.

Deconsolidation of RTS USA Corp.

During F2020, the Company recorded a net gain of \$4,774, resulting from the deconsolidation of assets and liabilities of RTS USA Corp. subsequent to the Chapter 7 filing, compared to \$nil in F2019. See “Key Business Developments – RTS USA Corp. Chapter 7 Filing”.

Interest Expense

Interest expense was \$2,421 in Q4 2020 as compared to \$3,962 in Q4 2019, representing a decrease of \$1,541, or 38.9%. During F2020, interest expense was \$11,741 as compared to \$15,567 in F2019, representing a decrease of \$3,826, or 24.6%. The decrease in interest expense for both Q4 2020 and F2020 primarily related to lower year-over-year drawings on our Revolving Credit Facility (as defined below), lower market interest rates, and lower accretion expense on lease liabilities. See “Indebtedness”.

Income Taxes Expense (Recovery)

Income taxes expense (recovery) was \$5,080 in Q4 2020 as compared to \$(4,339) in Q4 2019, representing an increase of \$9,419. The effective income tax rates for Q4 2020 and Q4 2019 were 29.2% and 8.9%, respectively. During F2020, income taxes expense (recovery) was \$4,885 as compared to \$(10,456) in F2019, representing an increase of \$15,341. The effective income tax rates for F2020 and F2019 were 27.2% and 14.4%, respectively.

The effective income tax rates in Q4 2020 and F2020 were predominately driven by non-deductible share-based compensation expenses, the deconsolidation of RTS USA Corp., and the unrecognized deferred tax assets on capital losses. In Q4 2019 and F2019, the effective income tax rates were predominately driven by the unrecognized deferred tax assets on deductible differences and tax losses, and expenses related to goodwill impairment.

Net Income (Loss)

Net income was 12,344 in Q4 2020 as compared to a net loss of \$(44,577) in Q4 2019, representing an increase of \$56,921. During F2020, net income was \$13,080 as compared to net loss of \$(62,029) in F2019, representing an increase of \$75,109. The increase in net income (loss) results from the factors described above.

QUARTERLY FINANCIAL INFORMATION

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

CAD \$000s (except per Share data) (Unaudited)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Sales	99,397	72,946	38,214	29,949	127,453	86,377	61,683	54,352
Net Income (Loss)	12,344	10,341	(1,820)	(7,785)	(44,577)	1,969	(9,653)	(9,768)
Net Earnings (Loss) per Share:								
Basic earnings (loss) per Share	\$ 0.29	\$ 0.25	\$ (0.04)	\$ (0.18)	\$ (1.06)	\$0.05	\$(0.23)	\$(0.23)
Diluted earnings (loss) per Share	\$ 0.29	\$ 0.24	\$ (0.04)	\$ (0.18)	\$ (1.06)	\$0.05	\$(0.23)	\$(0.23)
Corporate retail stores, end of period	113	115	115	116	122	122	124	121

SUMMARY OF NON-IFRS MEASURES

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

CAD \$000s (except per Share data)	Q4 2020	Q4 2019	F2020	F2019
Adjusted DTC Gross Profit	55,681	65,957	128,142	162,630
Adjusted DTC Gross Margin	60.7%	55.4%	61.5%	56.5%
EBITDA	28,506	(34,448)	63,031	(17,312)
Adjusted EBITDA	26,091	26,053	38,748	26,068
Adjusted Net Income	16,272	13,269	16,511	4,018
Adjusted Net Income per Share	\$0.39	\$0.31	\$0.39	\$0.10

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

RECONCILIATION OF NON-IFRS MEASURES

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

CAD \$000s	Q4 2020	Q4 2019	F2020	F2019
DTC gross profit	54,846	65,660	127,262	161,790
<i>Add the impact of:</i>				
COGS: DC Relocation Project (a)	–	297	45	840
COGS: Inventory provision (b)	835	–	835	–
Adjusted DTC Gross Profit	55,681	65,957	128,142	162,630
CAD \$000s	Q4 2020	Q4 2019	F2020	F2019
Net income (loss)	12,344	(44,577)	13,080	(62,029)
<i>Add the impact of:</i>				
Interest expense (c)	2,421	3,962	11,741	15,567
Income taxes expense (recovery) (c)	5,080	(4,339)	4,885	(10,456)
Depreciation and amortization (c)	8,661	10,506	33,325	39,606
EBITDA	28,506	(34,448)	63,031	(17,312)
<i>Adjust for the impact of:</i>				
COGS: DC Relocation Project (a)	–	297	45	840
COGS: Inventory provision (b)	835	–	835	–
COGS: P&O Duty Reimbursement (d)	–	–	–	175
SG&A: IFRS 16: Rental expense excluded from net income (loss) as a result of IFRS 16 (c)	(5,883)	(7,441)	(25,631)	(29,347)
SG&A: IFRS 16: Impairment of ROU assets (c)	1,162	3,215	1,162	3,215
SG&A: Gain from the deconsolidation of RTS USA Corp. (e)	–	–	(4,774)	–
SG&A: Chapter 7 filing costs (e)	43	–	1,283	–
SG&A: Purchase accounting adjustments (f)	42	58	169	582
SG&A: Fixed asset impairment (g)	886	19,183	886	19,183
SG&A: Goodwill impairment (h)	–	44,799	–	44,799
SG&A: Stock option expense (recovery) (i)	176	(1,045)	705	(518)
SG&A: DC Relocation Project (a)	–	–	–	1,648
SG&A: Changes in key personnel (j)	324	1,165	1,036	2,339
SG&A: Other non-recurring items (k)	–	270	1	464
Adjusted EBITDA^(m)	26,091	26,053	38,748	26,068

CAD \$000s	Q4 2020	Q4 2019	F2020	F2019
Net income (loss)	12,344	(44,577)	13,080	(62,029)
<i>Reverse the impact of IFRS 16:</i>				
Rent expense excluded from net loss (c)	(5,883)	(7,441)	(25,631)	(29,347)
Depreciation on ROU assets (c)	5,620	6,244	21,047	24,721
Impairment on ROU assets (c)	1,162	3,215	1,162	3,215
Interest on lease liabilities (c)	1,466	2,261	6,724	9,048
Deferred tax impact (c)	(609)	(519)	(839)	(1,414)
Total IFRS 16 impacts reversed	1,756	3,760	2,463	6,223
<i>Add the impact of:</i>				
COGS: DC Relocation Project (a)	-	297	45	840
COGS: Inventory provision (b)	835	-	835	-
COGS: P&O Duty Reimbursement (d)	-	-	-	175
SG&A: Gain from the deconsolidation of RTS USA Corp. (e)	-	-	(4,774)	-
SG&A: Chapter 7 filing costs (e)	43	-	1,283	-
SG&A: Purchase accounting adjustments (f)	42	58	169	582
SG&A: Fixed asset impairment (g)	886	19,183	886	19,183
SG&A: Goodwill impairment (h)	-	44,799	-	44,799
SG&A: Stock option expense (recovery) (i)	176	(1,045)	705	(518)
SG&A: DC Relocation Project (a)	-	-	-	1,648
SG&A: Changes in key personnel (j)	324	1,165	1,036	2,339
SG&A: Other non-recurring items (k)	-	270	1	464
SG&A: Amortization of intangible assets acquired by Searchlight (l)	575	692	2,302	3,539
Total adjustments	2,881	65,419	2,488	73,051
Tax effect of adjustments	(709)	(11,333)	(1,520)	(13,227)
Adjusted Net Income⁽ⁿ⁾	16,272	13,269	16,511	4,018

Notes:

- (a) In F2018, we commenced preparations for the DC Relocation Project. During the period of transition, we incurred expenses related to, among other things, training, testing and administrative costs, along with rent and other operating costs in connection with the need to operate two distribution centres simultaneously. These expenses would not be incurred as part of our normal business operations and are not recurring.
- (b) Represents inventory provision on the discontinuation of specific seasonal inventory styles that no longer align with the Company's strategic product direction.
- (c) The impact of IFRS 16 in Q4 2020 and Q4 2019 was: (i) an increase to SG&A expenses of \$899 and \$2,018, respectively, which comprised the impact of depreciation and impairment on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of \$1,466 and \$2,261, respectively, arising from interest expense recorded on lease liabilities in the period, and (iii) a deferred tax recovery impact of \$609 and \$519, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. The impact of IFRS 16 in F2020 and F2019 was: (i) a decrease to SG&A expenses of \$3,422 and \$1,411, respectively, which comprised the impact of depreciation and impairment on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of \$6,724 and \$9,048, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$839 and \$1,414, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded.
- (d) Represents a one-time reimbursement paid by Roots to our international partner related to import taxes in Taiwan incurred by our partner on certain footwear categories shipped from China.
- (e) Under the Chapter 7 filing, control of RTS USA Corp. no longer rests with the Company, but rather with the court-appointed trustee in charge of administering the case. Accordingly, effective April 29, 2020, the Company is no longer consolidating the assets, liabilities or operating results of RTS USA Corp. The Company recorded a net gain of \$4,774 in relation to the deconsolidation. In addition, the Company also incurred \$1,283 of costs year-to-date associated with the Chapter 7 filing, primarily associated with professional service fees and other costs incurred in relation to the Chapter 7 filing. In our view, the gain arising from the deconsolidation of RTS USA Corp. and the Chapter 7 filing costs would not be incurred as part of our normal business operations and are not recurring.
- (f) As a result of the Acquisition, we recognized an intangible asset for lease arrangements in the amount of \$6,310, which when excluding the impacts of IFRS 16, is amortized over the life of the leases and included in SG&A expenses. In our view, this cost does not reflect the underlying profitability of the business and would reduce the ability to compare such underlying results to historical periods prior to the Acquisition.

- (g) Represents a non-cash impairment charge taken against certain leasehold improvements for stores where the recoverable amount is deemed to be below the carrying value. Of the total non-cash impairment charge taken in F2019, \$12,738 pertains to impairment of leasehold improvements at the New U.S. stores.
- (h) Represents a non-cash impairment charge taken against goodwill of the DTC CGU as the recoverable amount is deemed to be below the carrying value.
- (i) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Incentive Plan.
- (j) Represents expenses incurred in respect of the Company's efforts to recruit for vacancies in key management positions and severance costs associated with such employee separations.
- (k) Predominately represents prior year expenses incurred in respect of the following matters: (i) consulting costs relating to a non-recurring brand positioning project, (ii) costs incurred related to rationalizing our store portfolio, and (iii) contract cancellation costs incurred as the Company continues to review and optimize its operating costs. Management has determined that these projects are infrequent in nature and, accordingly, such matters do not reflect the underlying profitability of the business and their inclusion would, therefore, reduce the ability to compare such underlying results to historical periods.
- (l) As a result of the Acquisition, intangibles relating to customer relationships of \$7,766 with a useful life of 10 years and licensing arrangements of \$25,910 with useful lives ranging from four to 13 years were recognized in accordance with IFRS 3, Business Combinations. The amortization expense resulting from the recognition of these intangible assets are non-cash in nature and are a direct result of the Acquisition. If the Acquisition had not occurred, such intangibles would not have been recognized and, consequently, the associated expenses would not have been incurred. Management is of the view that these costs do not reflect the underlying profitability of the business and would, therefore, reduce the ability to compare such underlying results to historical periods prior to the Acquisition.
- (m) Adjusted EBITDA excludes the impact of IFRS 16 in Q4 2020, Q4 2019, F2020 and F2019. If the impact of IFRS 16, net of impairments on ROU assets, was included for Q4 2020 and F2020, Adjusted EBITDA would have been \$30,771 and \$63,049, respectively. If the impact of IFRS 16, net of impairments on ROU assets, was included for Q4 2019 and F2019, Adjusted EBITDA would have been \$30,221 and \$51,618, respectively.
- (n) Adjusted Net Income excludes the impact of IFRS 16 in Q4 2020, Q4 2019, F2020 and F2019. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2020 and F2020, Adjusted Net Income would have been \$14,486 and \$13,925, respectively. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2019 and F2019, Adjusted Net Income (Loss) would have been \$9,466 and \$(2,632), respectively.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We principally use our funds for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities, will be sufficient to meet our future operating expenses, capital expenditures and debt service requirements. In addition, the aforementioned resources will enable us to comply with our financial covenants (see "Indebtedness"). We believe that our capital structure provides us with sufficient financial flexibility to pursue our future growth strategies. However, our ability to fund future operating expenses, capital expenditures and debt service requirements, and to comply with financial covenants, will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Key Business Developments – COVID-19", "Risks and Uncertainties" and "Factors Affecting our Performance" for additional information.

Cash Flows

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

CAD\$000s	Q4 2020	Q4 2019	F2020	F2019
Net cash generated from operating activities	33,838	44,834	50,922	40,044
Net cash used in financing activities	(35,468)	(46,908)	(31,515)	(13,583)
Net cash used in investing activities	(497)	(2,847)	(3,964)	(22,320)
Change in cash and bank indebtedness	(2,127)	(4,921)	15,443	4,141

Analysis of Cash Flows for Q4 2020 and F2020 compared to Q4 2019 and F2019

Cash Flows from Operating Activities

For Q4 2020 and F2020, cash flows from operating activities totalled \$33,838 and \$50,922, respectively, compared to \$44,834 and \$40,044 in Q4 2019 and F2019, respectively. The year-over-year decrease in cash flows from operating activities in Q4 2020 is attributable to the decline in sales in Q4 2020 due to store closures leading to lower sell through of inventory. In addition, cash flows from operating activities further decreased in Q4 2020 as a result of timing shifts of income tax payments. The improvement in cash flows from operating activities in F2020 compared to F2019 is attributable to higher operating income generated year-over-year. The Company has continued to negotiate extended payment terms with vendors and partners during the COVID-19 pandemic, which has improved the Company's working capital. In addition, cash flows from operating activities were further improved by \$3,503 of income tax refunds received in Q1 2020, in relation to taxable losses from the prior tax year.

Cash Flows used in Financing Activities

For Q4 2020 and F2020, cash flows used in financing activities amounted to \$35,468 and \$31,515, respectively, compared to \$46,908 and \$13,583 in Q4 2019 and F2019, respectively. The year-over-year decrease in cash flows used in financing activities in Q4 2020 was largely driven by lower incremental draws on our Revolving Credit Facility in Q4 2020, as a result of higher operating income and lower capital expenditures.

The year-over-year increase in cash flows used in financing activities in F2020 is largely driven by greater repayments on our Revolving Credit Facility. In F2020, we made \$4,984 of repayments on our Term Credit Facility (F2019 - \$4,984) and \$14,000 of net repayments on our Revolving Credit Facility (F2019 – net draws of \$9,000).

As at the end of F2020, the Company had a total amount outstanding under its Credit Facilities of \$72,232 (F2019 – \$91,216).

Cash Flows used in Investing Activities

For Q4 2020 and F2020, cash flows used in investing activities amounted to \$497 and \$3,964, respectively, compared to \$2,847 and \$22,320 in Q4 2019 and F2019, respectively. The decrease is primarily due to fewer capital projects undertaken as compared to F2019, including the completion of capital expenditures related to our DC Relocation Project in Q3 2019.

INDEBTEDNESS

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

On March 27, 2020, the Company amended the Credit Facilities to adjust certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. The Company incurred \$148 of costs associated with the amendment, which were recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The \$75,000 Revolving Credit Facility limit less the aggregate swing line loan of \$10,000, and the September 6, 2022 maturity date for the Credit Facilities, remain unchanged.

On December 4, 2020, the Company issued a letter of credit (“**LoC**”) in the normal course of business for an amount of \$416, which decreases the availability under the Revolving Credit Facility. The LoC matures on December 4, 2021.

As at the end of F2020, the Company had unused borrowing capacity available under the Revolving Credit Facility of \$74,587 (F2019 - \$61,000 unused borrowing capacity, less \$7,226 of net bank overdraft).

The Company has financial and non-financial covenants under the Credit Facilities. The key financial covenants include covenants for senior secured debt to Adjusted EBITDA ratio (“**Senior Leverage Ratio**”), total debt to Adjusted EBITDA ratio, and fixed charge coverage ratio. Adjusted EBITDA used in the calculation of our key financial covenants may differ from the Adjusted EBITDA non-IFRS measure as defined in this MD&A. As at the end of F2020, the Company was in compliance with all covenants.

The Credit Facilities bear interest according to the type of borrowing advanced, which may be based on a reference rate of the U.S. base rate or the Canadian prime rate, plus a margin that ranges from 125 to 250 basis points (“**bps**”) or the LIBOR rate or bankers’ acceptances rate, plus a margin that ranges from 225 to 350 bps. The applicable margins are derived from our Senior Leverage Ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 125 bps at less than 2.0x Senior Leverage Ratio, to 250 bps at greater than or equal to 3.5x Senior Leverage Ratio; and (ii) where the LIBOR rate or bankers’ acceptances rate is used, the margins range from 225 bps at less than 2.0x Senior Leverage Ratio, to 350 bps at greater than or equal to 3.5x Senior Leverage Ratio.

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

CAD \$000s	Term Credit Facility
Within 1 year	4,984
Within 1 - 2 years	67,248
Total	72,232

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes our significant contractual obligations and other obligations as well as our off-balance sheet arrangements as at January 30, 2021:

CAD\$000s	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Thereafter	Total
Term Credit Facility ⁽¹⁾	4,984	67,248	–	–	–	–	72,232
Interest commitments relating to long-term debt ⁽²⁾	1,886	1,327	–	–	–	–	3,213
Payments on lease liabilities	23,354	22,047	20,882	16,192	13,186	24,459	120,120
Remaining lease obligations ⁽³⁾	13	157	157	170	178	1,028	1,703
Inventory purchase commitments ⁽⁴⁾	39,952	–	–	–	–	–	39,952
Total commitments and obligations	70,189	90,779	21,039	16,362	13,364	25,487	237,220

Notes:

- (1) The repayment of the Term Credit Facility may occur prior to the mandatory repayment time if certain events occur and/or at the discretion of the Company.
- (2) Based on the interest rate in effect as at January 30, 2021, and assuming no prepayments are made to the Term Credit Facility.
- (3) Remaining lease obligations include obligations on leases that have been excluded from lease liabilities under IFRS 16 either due to recognition exemptions for leases with less than one year remaining as of the date of adoption or due to contractual commitments for leases with future commencement dates. Remaining lease obligations reflect minimum annual commitments for our operating leases on those premises, excluding renewal options and variable rent.
- (4) Inventory purchase commitments reflect the cost of outstanding inventory purchases ordered from our vendors and expected to be received within the period. Inventory purchases are part of the normal course of our business and will be primarily funded through sales in our DTC segment.

Due to the seasonal fluctuations of our retail business (see “Factors Affecting our Performance – Seasonality”), our net debt position may be higher during the first three fiscal quarters when working capital requirements peak and will generally decrease in the fourth fiscal quarter. Historically, contractual obligations and commitments during the first three fiscal quarters were funded primarily through draws on our Revolving Credit Facility (see “Indebtedness”), and, to a lesser extent, sales generated from our operations and our management of working capital. In the fourth fiscal quarter, we have historically generated positive cash flow from operations to fund our remaining contractual obligations and commitments and would make repayments against draws on our Revolving Credit Facility during the first three fiscal quarters.

We will continue to fund our upcoming commitments and obligations through the use of our Revolving Credit Facility and cash flow from operations. We believe that we will continue to generate sufficient cash flow from operations over the course of a fiscal year to fund our contractual obligations and commitments and the cost of our growth and development activities incurred during such fiscal year (see also “Key Business Developments – COVID-19”).

FINANCIAL INSTRUMENTS

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

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

of changes in the fair value of the foreign currency forward contracts are recognized immediately in profit or loss.

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

As of January 30, 2021, the Company has recorded derivative obligations of \$418, representing foreign currency forward contracts to buy US\$27,260 at an average rate of 1.29. As at January 31, 2021, the exchange rate was 1.28. The forward contracts have maturity dates between February 1, 2021 and January 4, 2022.

Of the outstanding foreign currency forward contracts, US\$1,648, with an accumulated loss of \$105 (net of tax – \$77), was in relation to future U.S. dollar denominated purchases that were no longer expected to occur as a result of the Company's efforts to reduce forward inventory purchases in response to COVID-19 (see "Key Business Developments – COVID-19"). As a result, the Company is no longer designating these forward contracts for hedge accounting and has reclassified the accumulated unrealized loss associated with these forward contracts from other comprehensive income (loss) to profit or loss. These US\$1,648 of forward contracts have maturity dates between February 1, 2021 and January 4, 2022, at an average forward rate of 1.33.

The Company had temporarily paused its hedging program from April 2020 to December 2020 due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19.

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

CURRENT SHARE INFORMATION

As of April 7, 2021, there were 42,198,082 Shares issued and outstanding (April 28, 2020 – 42,124,451) and nil preferred shares issued and outstanding (April 28, 2020 – nil).

During F2020, the Company granted 1,206,500 time-based options under the Omnibus Plan. In addition, the Company issued 73,631 Shares from treasury as a result of the exercise of 73,631 restricted share units ("**RSUs**") granted under the Omnibus Plan. During F2020, 379,929 options and 16,586 RSUs were forfeited and cancelled. As at January 31, 2021, 2,025,308 stock options and 93,563 RSUs were granted and outstanding and 544,762 options and 15,985 RSUs were vested as of such date. Each option and RSU is, or will become, exercisable for one Share.

During F2020, the Company also granted 243,517 deferred share units ("**DSUs**") under the Company's deferred share unit plan (the "**DSU Plan**"). As of January 30, 2021, 419,670 DSUs were outstanding under the DSU Plan. No Shares will be issued upon the settlement of DSUs.

RELATED PARTY TRANSACTIONS

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight beneficially own approximately 48.6% of the total issued and outstanding Shares and the Founders beneficially own approximately 12.4% of the total issued and outstanding Shares. All transactions described below are in the normal course of business and have been accounted for at their exchange value.

The Company leases the building for its manufacturing facility and, until August 2019, leased the building for its former distribution centre, from companies that are under common control of the Founders. For Q4 2020 and F2020, the rent paid as it relates to the lease of these properties was \$71 (Q4 2019 – \$71) and \$248 (F2019 – \$616), respectively.

On August 6, 2019, Meghan Roach, a managing director of Searchlight, was appointed as Interim Chief Financial Officer on a temporary secondment basis. Subsequent to the appointment of a new Chief Financial Officer, on January 6, 2020, Ms. Roach was appointed to the role of Interim Chief Executive Officer on a temporary secondment basis. Ms. Roach provided her services at no cost to the Company during this time. On May 26, 2020, the Company announced the appointment of Ms. Roach as the Company's President and Chief Executive Officer, no longer on an interim basis. Ms. Roach continued in this role at minimal cost to the Company through December 31, 2020.

In February 2016, a former member of the Company's executive team purchased the equivalent of 214,193 Shares from Searchlight at a price of \$4.67 per Share. The purchase was paid for using \$500 in cash and a \$500 loan from the Company. The \$500 loan from the Company is to be repaid at the earlier of six years from the loan date and upon a liquidity sale of the Company. Interest accrues at a rate of 4.0% per annum and is payable at the start of each calendar year following the date of the loan. Unpaid interest may be deemed paid by increasing the principal amount outstanding. As at January 30, 2021, the outstanding balance on the loan and accrued interest was \$608 (February 1, 2020 – \$585). The officer resigned from the Company effective August 9, 2019.

RISKS AND UNCERTAINTIES

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

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

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

Foreign Currency Exchange Risk

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

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

Interest Rate Risk

We are exposed to changes in interest rates on our cash and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. As of January 30, 2021, we only have variable interest rate debt. Based on the outstanding borrowings as discussed under “Indebtedness”, a one percentage point change in the average interest rate on our borrowings would have changed interest expense by \$230 in Q4 2020 and \$1,033 in F2020. The impact of future interest rate expense resulting from future changes in interest rates will depend largely on the gross amount of our borrowings at such time.

Credit Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. We manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of our sales, income and working capital needs. The Revolving Credit Facility is also used to maintain liquidity, allowing the Company to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving certain financial results. Market conditions are difficult to predict and there is no assurance that the Company will achieve certain results. In the event of non-compliance, the Company’s lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants. The Company will continue to carefully monitor its compliance with its covenants and seek waivers if such need arises at that time. See “Key Business Developments – COVID-19” and “Indebtedness”.

DISCLOSURE CONTROLS AND PROCEDURES

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

An evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as of January 30, 2021.

Although the Company's disclosure controls and procedures were operating effectively as of January 30, 2021, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework and criteria established in "Internal Control – Integrated Framework" published by The Committee of Sponsoring Organizations of the Treadway Commission, 2013". Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at January 30, 2021.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

significant accounting policies are more fully described in our Annual Financial Statements, we believe that the following accounting policies and estimates are critical to our business operations and understanding our financial results.

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

Inventory valuation

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

Impairment of non-financial assets

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

In determining the recoverable amount, defined as the higher of the FVLCS and the VIU of a CGU or a group of CGUs, various estimates are used. FVLCS for fixed assets and right-of-use assets is determined using estimates such as market rental rates of comparable properties and discount rates. VIU for fixed assets and right-of-use assets is determined using estimates such as projected future sales, gross profit margin and earnings, and a discount rate consistent with external industry information, reflecting the risk associated with the specific cash flows. The Company determines FVLCS for goodwill and indefinite life intangible assets using estimates such as projected future sales, gross profit margin and earnings, a terminal growth rate and a discount rate.

Share-based compensation

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

Gift card breakage

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

Income taxes

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

Leases

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

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED IN THE YEAR

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

In May 2020, the IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, *Leases*, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. COVID-19-related rent concessions qualify for the practical expedient if there was a decrease in lease consideration, reduction of lease payments that affected payments originally due on or before June 30, 2021, and no substantive changes to other terms and conditions of the lease. The amendment became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted.

The Company has applied the practical expedient for F2020 and has recorded any eligible change in lease payments resulting from COVID-19-related rent concessions in the consolidated statement of net income (loss), at the later of the date upon which the rent concession arrangement is executed and the period to which the rent concession relates. In F2020, the Company received \$3,525 of base rent concessions, which qualified for the practical expedient and was recorded as a reduction to SG&A expenses. In addition, in F2020 the Company received

\$3,729 of rent concessions that were either not eligible for the practical expedient or were variable lease payments excluded from the scope of IFRS 16, *Leases*.

IAS 20, Government Grants

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends International Accounting Standard 1 – *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

SUBSEQUENT EVENTS

In Q4 2020, in response to a second wave of government mandated lockdowns, the Company temporarily closed corporate retail stores within certain regions of Canada. As of March 11, 2021, the Company had reopened all but two corporate retail stores in these regions.

This month, in accordance with further changes to provincial guidelines, the Company has shifted its store operations to curbside pick-up and eCommerce fulfillment only for certain regions in Québec, effective April 2, 2021, and for the province of Ontario, effective April 8, 2021. This represents two corporate retail stores in Québec, as well as 62 Roots corporate retail stores and five pop-up locations in Ontario. The changes in operation for these locations will be in place for at least 10 days in Québec and four weeks in Ontario.

ADDITIONAL INFORMATION

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



ROOTS CORPORATION

Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and
February 1, 2020
(In Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Roots Corporation

Opinion

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

- the consolidated statement of financial position as at January 30, 2021 and February 1, 2020
- the consolidated statement of net income (loss) for the 52 week periods then ended
- the consolidated statement of comprehensive income (loss) for the 52 week periods then ended
- the consolidated statement of changes in shareholders' equity for the 52 week periods then ended
- the consolidated statement of cash flows for the 52 week periods then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at January 30, 2021 and February 1, 2020, and its consolidated financial performance and its consolidated cash flows for the 52 week periods then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended January 30, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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



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

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

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

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

Description of the matter

We draw attention to Notes 1(g)(ii), 2(f), 6 and 9 to the financial statements. Fixed assets and right-of-use assets are tested for impairment by the Entity whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Entity has recorded fixed assets and right-of-use assets of \$47,981 thousand and \$79,995 thousand, respectively. A significant portion of the fixed assets and right-of-use assets tested for impairment are comprised of assets used in store locations. The Entity has determined that each store location is a separate CGU for the purpose of impairment testing. The recoverable amount is based on the greater of the CGU's FVLCS and its VIU, which is determined using a discounted cash flow model. The Entity's significant estimates include:

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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



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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be titled "2020 Annual Report".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be titled "2020 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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



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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Farah Bundeali.

Vaughan, Canada
April 7, 2021

ROOTS CORPORATION

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

As at January 30, 2021 and February 1, 2020

	Note	January 30, 2021	February 1, 2020
Assets			
Current assets:			
Cash	19	\$ 9,166	\$ 949
Accounts receivable	4, 14	7,165	7,158
Inventories	5, 19	42,401	40,152
Prepaid expenses		3,137	5,418
Total current assets		61,869	53,677
Non-current assets:			
Loan receivable	14, 18	608	585
Lease receivable	9, 14	1,187	1,511
Fixed assets	6, 19	47,981	55,694
Right-of-use assets	9, 19	79,995	128,322
Intangible assets	7	190,777	193,079
Goodwill	7	7,906	7,906
Total non-current assets		328,454	387,097
Total assets		\$ 390,323	\$ 440,774

Liabilities and Shareholders' Equity

Current liabilities:			
Bank indebtedness		\$ –	\$ 7,226
Accounts payable and accrued liabilities	14, 19	25,850	20,252
Deferred revenue		5,759	6,011
Income taxes payable	15	5,955	2,008
Current portion of lease liabilities	9, 14, 19	22,197	26,569
Current portion of long-term debt	10, 14	4,984	4,984
Derivative obligations	8, 14	418	158
Total current liabilities		65,163	67,208
Non-current liabilities:			
Deferred tax liabilities	15	15,891	13,942
Long-term portion of lease liabilities	9, 14, 19	78,989	124,590
Long-term debt	10, 14	66,100	84,528
Total non-current liabilities		160,980	223,060
Total liabilities		226,143	290,268
Shareholders' equity:			
Share capital	11	197,333	196,903
Contributed surplus	13	3,682	3,407
Accumulated other comprehensive income (loss)		(227)	(116)
Retained earnings (deficit)		(36,608)	(49,688)
Total shareholders' equity		164,180	150,506
Total liabilities and shareholders' equity		\$ 390,323	\$ 440,774

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On behalf of the Board of Directors:

“Erol Uzumeri” Director

“Richard P. Mavrincac” Director

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

Consolidated Statement of Net Income (Loss)

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

For the 52-week periods ended January 30, 2021 and February 1, 2020

	Note	January 30, 2021	February 1, 2020
Sales		\$ 240,506	\$ 329,865
Cost of goods sold	5	100,767	153,676
Gross profit		139,739	176,189
Selling, general and administrative expenses	20	114,807	188,308
Goodwill impairment	7	–	44,799
Gain from deconsolidation of RTS USA Corp.	19	4,774	–
Income (loss) before interest expense and income taxes expense (recovery)		29,706	(56,918)
Interest expense	10	11,741	15,567
Income (loss) before income taxes		17,965	(72,485)
Income taxes expense (recovery)	15	4,885	(10,456)
Net income (loss)		\$ 13,080	\$ (62,029)
Basic earnings (loss) per share	12	\$ 0.31	\$ (1.47)
Diluted earnings (loss) per share	12	\$ 0.31	\$ (1.47)

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 30, 2021 and February 1, 2020

	Note	January 30, 2021	February 1, 2020
Net income (loss)		\$ 13,080	\$ (62,029)
Other comprehensive income, net of taxes:			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	8, 14	362	425
Cost of hedging excluded from cash flow hedges	8, 14	(22)	362
Tax impact of cash flow hedges	8, 14	(91)	(210)
Total other comprehensive income		249	577
Total comprehensive income (loss)		\$ 13,329	\$ (61,452)

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

February 1, 2020	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, February 2, 2019		\$ 196,853	\$ 3,975	\$ 13,608	\$ 268	\$ 214,704
Adjustment on adoption of IFRS 16		-	-	(1,267)	-	(1,267)
Balance, February 3, 2019		\$ 196,853	\$ 3,975	\$ 12,341	\$ 268	\$ 213,437
Net loss		-	-	(62,029)	-	(62,029)
Net gain from change in fair value of cash flow hedges, net of income taxes		-	-	-	577	577
Transfer of realized loss on cash flow hedges to inventories, net of income taxes		-	-	-	(961)	(961)
Share-based compensation	13	-	(518)	-	-	(518)
Issuance of shares	11, 13	50	(50)	-	-	-
Balance, February 1, 2020		\$ 196,903	\$ 3,407	\$ (49,688)	\$ (116)	\$ 150,506

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 30, 2021 and February 1, 2020

	Note	January 30, 2021	February 1, 2020
Cash provided by (used in):			
Operating activities:			
Net income (loss)		\$ 13,080	\$ (62,029)
Items not involving cash:			
Depreciation and amortization	6, 7, 9	33,325	39,606
Share-based compensation expense (recovery)	13	705	(518)
Impairment of fixed assets and right-of-use assets	6, 9	2,048	22,398
Impairment of goodwill	7	–	44,799
Gain from deconsolidation of RTS USA Corp.	19	(4,774)	–
Unrealized losses on forward contracts	8	105	–
Gain on lease modification	9	(310)	(520)
Rent concessions related to practical expedient	9	(3,525)	–
Interest expense	10	11,741	15,567
Income taxes expense (recovery)	15	4,885	(10,456)
Interest paid		(4,337)	(5,904)
Payment of interest on lease liabilities	9	(6,724)	(9,048)
Taxes refunded (paid)		1,056	(2,200)
Change in non-cash operating working capital:			
Accounts receivable	4	(7)	(531)
Inventories	5	(4,540)	9,381
Prepaid expenses		2,281	1,025
Accounts payable and accrued liabilities		6,165	(2,039)
Deferred revenue		(252)	513
		50,922	40,044
Financing activities:			
Issuance (repayment) of long-term debt	10	(14,000)	9,000
Long-term debt financing costs	10	(148)	(163)
Repayment of Term Credit Facility	10	(4,984)	(4,984)
Payment of principal on lease liabilities, net of tenant allowance	9	(12,383)	(17,436)
		(31,515)	(13,583)
Investing activities:			
Additions to fixed assets	6	(3,423)	(22,320)
Deconsolidation of RTS USA Corp.	19	(541)	–
		(3,964)	(22,320)
Increase in cash		15,443	4,141
Cash and bank indebtedness, beginning of period		(6,277)	(10,418)
Cash and bank indebtedness, end of period		\$ 9,166	\$ (6,277)

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

1. Nature of operations and basis of presentation

Nature of operations

Established in 1973, Roots is a premium outdoor lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products designed for life's everyday adventures, including women's and men's apparel, leather goods, footwear, accessories, and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As at January 30, 2021, we operated 111 corporate retail stores in Canada, two corporate retail stores in the United States, 117 partner-operated stores in Taiwan, 26 partner-operated stores in China, two partner-operated stores in Hong Kong, and a global eCommerce platform, roots.com. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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

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

Basis of preparation

(a) Fiscal period

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

(b) Statement of compliance

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on April 7, 2021.

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

(c) Basis of measurement

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

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

(d) Functional currency

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

(e) Basis of consolidation

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

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

(f) COVID-19

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

As a result of the significant negative impact that COVID-19 has had on the global economy, consumer confidence, and the retail operating environment, the Company's consolidated financial results in fiscal 2020 have been materially impacted. Since March 2020, the Company has implemented many strategies to reduce costs and manage liquidity to overcome the negative impacts of the pandemic, including the following:

- Substantially reduced selling, general and administrative costs, capital expenditures and discretionary spending across all areas of the business;
- Realized personnel cost savings related to temporary layoffs as a result of store closures, temporary reductions in compensation to the Board and head office employees, hiring and salary freezes, and the elimination of fiscal 2019 bonuses;
- Reduced and adjusted forward inventory purchases;
- Worked closely with partners and suppliers, as well as service and logistics providers, to identify further areas of cost reduction and/or payment deferral;
- Worked with landlords to abate or defer a significant portion of corporate retail store rent during the store shut down or subsequent period; and
- Evaluated, qualified and applied for applicable government relief programs, including the Canada Emergency Wage Subsidy ("CEWS") program and the Canada Emergency Rent Subsidy ("CERS") program. See Note 20.

Management recognizes that while it has implemented an action plan to best navigate the impacts of COVID-19 on the business, there is still uncertainty with respect to the duration and extent to which the pandemic may adversely impact the Company. The Company expects to have access to borrowings and other forms of support to be available to businesses impacted by this pandemic. However, to the extent that COVID-19 continues, or further public restrictions are imposed by the government, the degree to which the Company's operations could be affected may increase.

(g) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

(i) *Inventory valuation*

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

(ii) *Impairment of non-financial assets*

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

In determining the recoverable amount, defined as the higher of the fair value less cost to sell ("FVLCS") and the value-in-use ("VIU") of a CGU or a group of CGUs, various estimates are used. FVLCS for fixed assets and right-of-use assets is determined using estimates such as market rental rates of comparable properties and discount rates. VIU for fixed assets and right-of-use assets is determined using estimates such as projected future sales, gross profit margin and earnings, and a discount rate consistent with external industry information, reflecting the risk associated with the specific cash flows. The Company determines FVLCS for goodwill and intangible assets using estimates such as projected future sales, gross profit margin and earnings, a terminal growth rate and a discount rate.

(iii) *Share-based compensation*

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

(iv) *Gift card breakage*

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

(v) *Leases*

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

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

(vi) *Income taxes*

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

2. Significant accounting policies

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

(a) Foreign currency

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

(b) Revenue recognition

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

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

Royalty revenue is included in sales and is recognized on an accrual basis in accordance with the various contractual agreements, based on the financial results as reported by the Company's international partner and other third-party licensees, and when collectability is reasonably determined.

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

(c) Inventories

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

For inventories manufactured by the Company, cost includes direct labour, raw materials, manufacturing and overhead costs. Raw materials inventories are recorded at the lower of cost and net realizable value.

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

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

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

(d) Fixed assets

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

Depreciation is primarily recognized in selling, general and administrative expenses in the consolidated statement of net income (loss), on a diminishing-balance or straight-line basis, over the estimated useful lives of each component of an item of fixed assets from the date that they are available for use. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted, prospectively, if appropriate.

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

Fixed assets are depreciated over the estimated useful lives of the assets, from the date they are available for use, based on the following annual rates:

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

(e) Intangible assets

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

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

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

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

(f) Impairment of non-financial assets

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

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

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

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

(g) Leased assets

The Company assesses whether a contract is, or contains, a lease at the inception of the applicable contract. The Company recognizes a right-of-use asset and a lease liability as the present value of future lease payments when the lessor makes the leased asset available for use by the Company.

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

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

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

Subleases

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

(h) Income taxes

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

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

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

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

(i) Share-based compensation

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

(j) Earnings (loss) per share ("EPS")

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

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

(k) Financial instruments

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

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

The Company designates foreign currency forward contracts (“forward contracts”) under a cash flow hedge for its foreign currency exposures on a portion of its U.S. dollar denominated purchases. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. At inception and each quarter-end thereafter, the Company formally assesses the effectiveness of its cash flow hedges.

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

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

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

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

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

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

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

ROOTS CORPORATION

Notes to Consolidated Financial Statements

For the 52-week periods ended January 30, 2021 and February 1, 2020

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

(l) New standards and interpretations adopted in the year

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

In May 2020, the IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, *Leases*, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. COVID-19-related rent concessions qualify for the practical expedient if there was a decrease in lease consideration, reduction of lease payments that affected payments originally due on or before June 30, 2021, and no substantive changes to other terms and conditions of the lease. The amendment became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted.

The Company has applied the practical expedient for the annual period ending January 30, 2021 and has recorded any eligible change in lease payments resulting from COVID-19-related rent concessions in the consolidated statement of net income (loss), at the later of the date on which the rent concession arrangement is executed and the period to which the rent concession relates. See Note 9.

IAS 20, Government Grants

The Company recognizes a government grant when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received by the Company. The Company recognizes the government grants as a reduction to the related expense that the grant is intended to offset. See Note 20.

(m) New standards and interpretations not yet adopted

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends IAS 1, *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

ROOTS CORPORATION

Notes to Consolidated Financial Statements

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3. Operating segments

The Company has two reportable operating segments:

- (a) The “Direct-to-Consumer” segment comprises sales through corporate retail stores and eCommerce; and
- (b) The “Partners and Other” segment consists primarily of the wholesale of Roots-branded products to our international operating partner and the royalties earned on the retail sales of Roots-branded products by our partner. The Partners and Other segment also includes royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

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

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

	January 30, 2021			February 1, 2020		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	\$ 208,230	\$ 32,276	\$ 240,506	\$ 287,762	\$ 42,103	\$ 329,865
Cost of goods sold	80,968	19,799	100,767	125,972	27,704	153,676
Gross profit	127,262	12,477	139,739	161,790	14,399	176,189
Selling, general and administrative expenses ⁽¹⁾			114,807			188,308
Goodwill impairment ⁽¹⁾			–			44,799
Gain from deconsolidation of RTS USA Corp. ⁽¹⁾			4,774			–
Income (loss) before interest expense and income taxes expense (recovery)			29,706			(56,918)
Interest expense ⁽¹⁾			11,741			15,567
Income (loss) before income taxes			\$ 17,965			\$ (72,485)

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

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4. Accounts receivable

	January 30, 2021				February 1, 2020			
	0-90 days	91-120 days	> 120 days	Total	0-90 days	91-120 days	> 120 days	Total
Accounts receivable	\$ 7,131	\$ 34	\$ –	\$ 7,165	\$ 6,652	\$ 121	\$ 385	\$ 7,158

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

	January 30, 2021	February 1, 2020
Allowance for doubtful accounts receivable, beginning of period	\$ (126)	\$ (83)
Net write off	118	(43)
Allowance for doubtful accounts receivables, end of period	\$ (8)	\$ (126)

5. Inventories

	January 30, 2021	February 1, 2020
Raw materials	\$ 6,103	\$ 4,942
Work in progress	633	742
Finished goods – On hand	32,024	29,035
Finished goods – In-transit	3,641	5,433
	\$ 42,401	\$ 40,152

The cost of merchandise inventories recognized as an expense and included in cost of goods sold for the period ended January 30, 2021 was \$95,058 (period ended February 1, 2020 – \$144,214). Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centre and stores including freight, import taxes and duties.

During the period ended January 30, 2021, the Company recorded a \$1,037 provision for inventories with net realizable values below cost (period ended February 1, 2020 – \$1,607).

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6. Fixed assets

	Computer hardware	Furniture and fixtures	Equipment	Computer software	Leasehold improvements	Finance leases	Total
Cost							
Balance, February 2, 2019	\$ 1,611	\$ 5,266	\$ 9,109	\$ 13,916	\$ 52,433	\$ 1,112	\$ 83,447
IFRS 16 transition adjustments	–	–	–	–	–	(1,112)	(1,112)
Balance, February 3, 2019	\$ 1,611	\$ 5,266	\$ 9,109	\$ 13,916	\$ 52,433	\$ –	\$ 82,335
Additions	101	601	1,873	4,094	15,651	–	22,320
Disposals/adjustments	(10)	(56)	–	–	(1,320)	–	(1,386)
Balance, February 1, 2020	\$ 1,702	\$ 5,811	\$ 10,982	\$ 18,010	\$ 66,764	\$ –	\$ 103,269
Additions	211	25	354	1,031	1,802	–	3,423
Disposals/adjustments	–	(484)	–	–	(969)	–	(1,453)
Balance, January 30, 2021	\$ 1,913	\$ 5,352	\$ 11,336	\$ 19,041	\$ 67,597	\$ –	\$ 105,239
Accumulated depreciation and impairment losses							
Balance, February 2, 2019	\$ 491	\$ 1,119	\$ 287	\$ 3,880	\$ 13,189	\$ 318	\$ 19,284
IFRS 16 transition adjustments	–	–	–	–	–	(318)	(318)
Balance, February 3, 2019	\$ 491	\$ 1,119	\$ 287	\$ 3,880	\$ 13,189	\$ –	\$ 18,966
Depreciation	195	846	673	1,841	7,257	–	10,812
Disposals/adjustments	(10)	(56)	–	–	(1,320)	–	(1,386)
Fixed asset impairment	–	–	–	–	19,183	–	19,183
Balance, February 1, 2020	\$ 676	\$ 1,909	\$ 960	\$ 5,721	\$ 38,309	\$ –	\$ 47,575
Depreciation	154	740	1,466	2,375	4,954	–	9,689
Disposals/adjustments	–	(484)	–	–	(969)	–	(1,453)
Fixed asset impairment	53	4	–	–	829	–	886
Deconsolidation of RTS USA Corp. (Note 19)	35	147	–	–	379	–	561
Balance, January 30, 2021	\$ 918	\$ 2,316	\$ 2,426	\$ 8,096	\$ 43,502	\$ –	\$ 57,258
Carrying amount							
February 1, 2020	\$ 1,026	\$ 3,902	\$ 10,022	\$ 12,289	\$ 28,455	\$ –	\$ 55,694
January 30, 2021	995	3,036	8,910	10,945	24,095	–	47,981

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For the period ended January 30, 2021, the Company deconsolidated \$561 of fixed assets related to RTS USA Corp. (see Note 19). The Company also recorded \$886 (period ended February 1, 2020 – \$19,183) of impairment losses on fixed assets and \$1,162 (period ended February 1, 2020 – \$3,215) of impairment losses on right-of-use assets as disclosed in Note 9. Impairment losses were in respect of 13 CGUs (period ended February 1, 2020 – 21 CGUs) using a VIU test in the Direct-to-Consumer operating segment as part of selling, general and administrative expenses.

For the period ended January 30, 2021, the Company had no impairment reversals on fixed assets and right-of-use assets (period ended February 1, 2020 – \$nil).

The recoverable amount for a store location is based on the VIU of the related CGU. When determining the VIU of a store location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining lease term. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long-term growth rates. The estimate of the VIU of the relevant CGUs was determined using a pre-tax discount rate of 12.5% at January 30, 2021 (February 1, 2020 – 12.5%).

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7. Intangible assets and Goodwill

	Trade names	License arrangements	Customer relationships	Favourable lease agreements	Total intangible assets	Total goodwill
Cost						
Balance, February 2, 2019	\$ 175,044	\$ 25,910	\$ 7,766	\$ 6,310	\$ 215,030	\$ 52,705
IFRS 16 transition adjustments	–	–	–	(6,310)	(6,310)	–
Balance, February 3, 2019	175,044	25,910	7,766	–	208,720	52,705
Balance, February 1, 2020	175,044	25,910	7,766	–	208,720	52,705
Balance, January 30, 2021	\$ 175,044	\$ 25,910	\$ 7,766	\$ –	\$ 208,720	\$ 52,705
Accumulated amortization and impairment losses						
Balance, February 2, 2019	\$ –	\$ 9,634	\$ 2,468	\$ 4,204	\$ 16,306	\$ –
IFRS 16 transition adjustments	–	–	–	(4,204)	(4,204)	–
Balance, February 3, 2019	–	9,634	2,468	–	12,102	–
Amortization	–	2,764	775	–	3,539	–
Impairment	–	–	–	–	–	44,799
Balance, February 1, 2020	–	12,398	3,243	–	15,641	44,799
Amortization	–	1,527	775	–	2,302	–
Balance, January 30, 2021	\$ –	\$ 13,925	\$ 4,018	\$ –	\$ 17,943	\$ 44,799
Carrying amount						
February 1, 2020	\$ 175,044	\$ 13,512	\$ 4,523	\$ –	\$ 193,079	\$ 7,906
January 30, 2021	175,044	11,985	3,748	–	190,777	7,906

Amortization expenses, impairment losses and reversals are recorded in selling, general and administrative expenses in the consolidated statement of net income (loss) in the period in which they occur. No impairment losses or reversals were recognized on definite life intangible assets for the period ended January 30, 2021 (period ended February 1, 2020 – \$nil).

Amortization expense on definite life intangible assets of \$2,302 for the period ended January 30, 2021 (period ended February 1, 2020 – \$3,539) has been recognized in the consolidated statement of net income (loss).

The Company has determined that trade names, primarily consisting of the Roots brand, have an indefinite life based on the brand's long history and the continued investment to be made to support the brand, which is the key value contributor to the ongoing success of the business. Trade names are not amortized and are instead tested for impairment annually or when such changes in events or circumstances indicate a trigger for impairment or a change in its future economic benefits that would result in assessing the appropriateness of its useful life.

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

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

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

	Indefinite life trade names			Goodwill		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Balance, February 2, 2019	\$ 161,040	\$ 14,004	\$ 175,044	\$ 44,799	\$ 7,906	\$ 52,705
Impairment	–	–	–	(44,799)	–	(44,799)
Balance, February 1, 2020	161,040	14,004	175,044	–	7,906	7,906
Balance, January 30, 2021	\$ 161,040	\$ 14,004	\$ 175,044	\$ –	\$ 7,906	\$ 7,906

As at January 30, 2021, the recoverable amount of each CGU group was based on FVLCS and was determined by discounting the future cash flows generated from the CGU group.

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

Key assumptions used in the Company's annual impairment assessment as at January 30, 2021 include:

- Recovery of sales to pre-pandemic levels by 2022/2023
- Annual sales growth rates of up to 2 – 5% beyond 2023 (February 1, 2020 – up to 4%)
- Terminal growth rate of 2.0% (February 1, 2020 – 2.0%)
- After-tax discount rate of 14.0% (February 1, 2020 – 14.0%)
- Pre-tax discount rate of 18.5% (February 1, 2020 – 18.5%)

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

For the period ended January 30, 2021, the Company completed its annual impairment tests for indefinite life trade names and goodwill and concluded that the recoverable amount exceeded the carrying amount for the CGUs. For the period ended February 1, 2020, the Company recorded a goodwill impairment loss of \$44,799, pertaining to the Direct-to-Consumer CGU, as a result of its annual impairment tests.

8. Financial instruments

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

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

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

There were no transfers between levels of the fair value hierarchy for the periods ended January 30, 2021 and February 1, 2020.

The Company enters into forward contracts to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at January 30, 2021, the Company had outstanding forward contracts to buy US\$27,260 (February 1, 2020 – US\$44,885) at an average forward rate of 1.29 (February 1, 2020 – 1.33). As at January 30, 2021, the maturity dates on the forward contracts were between February 1, 2021 and January 4, 2022.

For the periods ended January 30, 2021 and February 1, 2020, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a gain of \$362 (net of tax – \$265) and a gain of \$425 (net of tax – \$312), respectively, which were recorded in other comprehensive income (loss).

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As of January 30, 2021, US\$1,648 of future U.S. dollar denominated purchases, hedged by outstanding forward contracts with an accumulated loss of \$105 (net of tax – \$77) (February 1, 2020 – \$nil (net of tax – \$nil)), were no longer expected to occur as result of the Company's efforts to reduce forward inventory purchases in response to COVID-19 (see also Note 1(f)). As a result, the Company is no longer designating these forward contracts for hedge accounting and has reclassified the accumulated unrealized loss associated with these forward contracts from other comprehensive income (loss) to profit or loss. The US\$1,648 of forward contracts have maturity dates between February 1, 2021 and March 1, 2021, at an average forward rate of 1.33.

The Company had temporarily paused its hedging program from April 2020 to December 2020 due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19.

9. Leases

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

(a) Right-of-use assets

The following table reconciles the changes in right-of-use assets for the periods ended January 30, 2021 and February 1, 2020:

	January 30, 2021	February 1, 2020
Cost		
Balance, beginning of period	\$ 156,498	\$ 137,294
Additions	1,423	16,902
Adjustments	637	8,832
Tenant allowances	(1,065)	(6,530)
Deconsolidation of RTS USA Corp. (Note 19)	(30,396)	–
Balance, end of period	\$ 127,097	\$ 156,498
Accumulated amortization and impairment losses		
Balance, beginning of period	\$ 28,176	\$ –
Depreciation	21,009	24,961
Impairment losses (Note 6)	1,162	3,215
Deconsolidation of RTS USA Corp. (Note 19)	(3,245)	–
Balance, end of period	\$ 47,102	\$ 28,176
Carrying amount	\$ 79,995	\$ 128,322

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(b) Lease liabilities

The following table reconciles the changes in lease liabilities for the periods ended January 30, 2021 and February 1, 2020:

	January 30, 2021	February 1, 2020
Balance, beginning of period	\$ 151,159	\$ 149,920
Additions	1,424	16,902
Adjustments	327	8,312
Tenant allowances	(1,065)	(6,530)
Interest expense on lease liabilities	6,724	9,048
Rent concessions	(3,525)	–
Repayment of interest and principal on lease liabilities, net of tenant allowance	(19,107)	(26,493)
Deconsolidation of RTS USA Corp. (Note 19)	(34,751)	–
Balance, end of period	\$ 101,186	\$ 151,159

Recorded in the consolidated statement of financial position as follows:

Current portion of lease liabilities	\$ 22,197	\$ 26,569
Long-term portion of lease liabilities	78,989	124,590
	\$ 101,186	\$ 151,159

(c) Commitments

The Company also has a future undiscounted cash flows of \$1,703 (period ended February 1, 2020 – \$1,703) related to leases not yet commenced but committed to.

(d) Variable Lease Payments

The Company makes variable lease payments for property tax and insurance charges on leased properties. The Company has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. During the period ended January 30, 2021, \$7,957 was recognized in selling, general and administrative expenses related to these variable lease arrangements (period ended February 1, 2020 – \$10,758).

(e) Sublease

A finance lease receivable is recognized as a lease receivable on the Company's consolidated statement of financial position. During the period ended January 30, 2021, the Company recognized sublease income of \$513 (period ended February 1, 2020 – \$501).

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(f) Rent Concessions

For the period ended January 30, 2021, the Company received \$3,525 of base rent concessions, which qualified for the practical expedient and was recorded as a reduction in selling, general and administrative expenses. In addition, for the period ended January 30, 2021, the Company received \$3,729 of rent concessions that were either not eligible for the practical expedient or were variable lease payments excluded from the scope of IFRS 16, *Leases*.

10. Long-term debt

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

On March 27, 2020, the Company amended the Credit Facilities to adjust certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. The Company incurred \$148 of costs associated with the amendment, which were recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The \$75,000 Revolving Credit Facility limit less the aggregate swing line loan of \$10,000, and the September 6, 2022 maturity date for the Credit Facilities, remain unchanged. As of January 30, 2021, \$nil of the Revolving Credit Facility has been drawn (February 1, 2020 - \$14,000).

On December 4, 2020, the Company issued a letter of credit (“LoC”) in the normal course of business for an amount of \$416, which decreases the availability under the Revolving Credit Facility. The LoC matures on December 4, 2021.

The following table reconciles the changes in cash flows from financing activities for long-term debt for the periods ended January 30, 2021 and February 1, 2020:

	January 30, 2021	February 1, 2020
Long-term debt, beginning of period	\$ 89,512	\$ 85,015
Long-term debt repayments of Term Credit Facility	(4,984)	(4,984)
Long-term debt financing costs	(148)	(163)
Long-term debt proceeds from (repayments of) Revolving Credit Facility	(14,000)	9,000
Total cash flow from long-term debt financing activities	70,380	88,868
Amortization of long-term debt financing costs	704	644
Total non-cash long-term debt activity	704	644
Total long-term debt, end of period	\$ 71,084	\$ 89,512

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Recorded in the consolidated statement of financial position as follows:

Current portion of long-term debt	\$ 4,984	\$ 4,984
Long-term portion of long-term debt	66,100	84,528
	<u>\$ 71,084</u>	<u>\$ 89,512</u>

As at January 30, 2021, principal repayments due on long-term debt were as follows:

	Term Credit Facility
Within 1 year	\$ 4,984
Within 1 - 2 years	67,248
<u>Total⁽¹⁾</u>	<u>\$ 72,232</u>

(1) Total long-term debt of \$71,084 is net of \$1,148 unamortized long-term debt financing costs.

Total interest expense for the period ended January 30, 2021 was \$11,741 (period ended February 1, 2020 – \$15,567) and was comprised of:

	January 30, 2021	February 1, 2020
Interest paid on long-term debt	\$ 4,021	\$ 5,688
Interest paid on lease liabilities (Note 9)	6,724	9,048
Amortization of long-term debt financing costs	704	644
Other	292	187
<u>Interest Expense</u>	<u>\$ 11,741</u>	<u>\$ 15,567</u>

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11. Share capital

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

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

There were no dividends or distributions declared during the periods ended January 30, 2021 and February 1, 2020.

During the period ended January 30, 2021, 73,631 Shares (February 1, 2020 – 4,220 Shares) were issued from treasury as a result of the exercise of 73,631 restricted share units ("RSUs") (February 1, 2020 – 4,220 RSUs) granted under the Company's Omnibus Equity Incentive Plan (the "Omnibus Plan") (See Note 13).

As at January 30, 2021, there were 42,198,082 Shares (February 1, 2020 – 42,124,451 Shares) and nil preferred shares (February 1, 2020 – nil preferred shares) issued and outstanding. All issued Shares are fully paid.

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

	January 30, 2021		February 1, 2020	
	Number of Shares	Share capital	Number of Shares	Share capital
Outstanding Shares, beginning of period	42,124,451	\$ 196,903	42,120,231	\$ 196,853
Issuance of Shares	73,631	430	4,220	50
Outstanding Shares, end of period	42,198,082	\$ 197,333	42,124,451	\$ 196,903

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12. Earnings (loss) per Share

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

	January 30, 2021	February 1, 2020
Weighted average Shares outstanding	42,170,369	42,122,962
Stock options	234,871	–
Dilutive weighted average Shares outstanding	42,405,240	42,122,962

	January 30, 2021	February 1, 2020
Net income (loss)	\$ 13,080	\$ (62,029)
Basic earnings (loss) per Share	\$ 0.31	\$ (1.47)
Diluted earnings (loss) per Share	0.31	(1.47)

For the periods ended January 30, 2021 and February 1, 2020, 818,808 and 1,198,737 stock options, respectively, were not included in the calculation of basic or diluted EPS as they were anti-dilutive and/or not in the money.

For the periods ended January 30, 2021 and February 1, 2020, nil and 183,780 RSUs, respectively, were not included in the calculation of basic or diluted EPS as they were anti-dilutive.

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13. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy up to 6,708,806 Shares. As at January 30, 2021, 2,025,308 stock options and 93,563 RSUs were granted and outstanding.

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

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

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

The fair value of stock options granted during the period ended January 30, 2021 was \$695 (period ended February 1, 2020 – \$1,211).

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For the 52-week periods ended January 30, 2021 and February 1, 2020

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

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

	January 30, 2021	February 1, 2020
Expected volatility	41.0% – 45.4%	33.0% – 34.1%
Share price at grant date	\$1.13 – \$1.41	\$3.28 – \$4.51
Exercise price	\$1.13 – \$1.41	\$3.28 – \$4.51
Risk-free interest rate	0.35% – 0.39%	1.34% – 1.60%
Expected term	5.5 years – 6.5 years	5.5 years – 6.5 years
Fair value per option	\$0.44 – \$0.59	\$1.10 – \$1.63

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

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

For the period ended January 30, 2021	Legacy Equity Incentive Plan	Omnibus Plan	DSU Plan	Total	
	Number of RSUs	Number of RSUs	Number of DSUs	Number of RSUs	Number of DSUs
Units, beginning of period	15,985	167,795	176,153	183,780	176,153
Granted	–	–	243,517	–	243,517
Exercised	–	(73,631)	–	(73,631)	–
Forfeited	–	(16,586)	–	(16,586)	–
Units, end of period	15,985	77,578	419,670	93,563	419,670

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

The fair value of RSUs granted during the period ended January 30, 2021 was \$nil (period ended February 1, 2020 – \$1,068). There were 15,985 RSUs vested as at January 30, 2021 (February 1, 2020 – 15,985). The fair value of DSUs granted during the period ended January 30, 2021 was \$292 (period ended February 1, 2020 – \$469).

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

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

The Company's DSUs are cash-settled instruments, such that when exercised, participants will receive a payment in cash equal to the fair market value of the Shares represented by the DSUs on the exercise date. The Company records the fair market value of potential cash-settlement obligations from existing DSUs in accounts payable and accrued liabilities. All changes to the fair value of the liability are recorded in the consolidated statement of net income (loss). For the period ended January 30, 2021, the fair market value of future DSU cash-settlement obligations was \$932 (period ended February 1, 2020 – \$329). During the periods ended January 30, 2021 and February 1, 2020, the Company recorded a loss of \$602 and \$205, respectively, from the changes to fair market value of DSU cash-settlement obligations.

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

	January 30, 2021	February 1, 2020
Legacy Equity Incentive Plan	\$ 2	\$ (1,136)
Legacy Employee Option Plan	52	259
Omnibus Plan	651	359
Total share-based compensation expense (recovery)	\$ 705	\$ (518)

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

14. Financial risk management

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

(a) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company prepares cash flow forecasts to ensure it has sufficient funds through operations and access to debt facilities to meet its financial obligations. The Company maintains the Credit Facilities, as described in Note 10, allowing it

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to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving financial forecasts. Market conditions are difficult to predict and there is no assurance that the Company will achieve its forecasts. In the event of non-compliance, the Company's lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants. The Company will continue to carefully monitor its compliance with its covenants and seek waivers if such a need arises.

The contractual maturities of the Company's current and long-term financial liabilities as at January 30, 2021, excluding interest payments, are as follows:

	Carrying amount	Contractual cash flows	Remaining to maturity			
			Under 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities	\$ 25,850	\$ 25,850	\$ 25,850	\$ -	\$ -	\$ -
Long-term debt	71,084	72,231	4,984	67,247	-	-
Lease liabilities	101,186	120,120	23,354	42,929	29,378	24,459
	<u>\$ 198,120</u>	<u>\$ 218,201</u>	<u>\$ 54,188</u>	<u>\$ 110,176</u>	<u>\$ 29,378</u>	<u>\$ 24,459</u>

(b) Currency risk

The Company is exposed to foreign exchange risk on foreign currency denominated financial assets and liabilities. A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed pre-tax net income for the period ended January 30, 2021 by \$541 (period ended February 1, 2020 – \$256), as a result of the revaluation on these financial assets and liabilities.

The Company purchases a significant amount of its merchandise in U.S. dollars and enters into forward contracts to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The Company has performed a sensitivity analysis on its forward contracts (designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income (loss). A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables remain constant, would have changed other comprehensive income (loss) for the period ended January 30, 2021 by \$1,261 (period ended February 1, 2020 – \$2,949), as a result of the revaluation on the Company's forward contracts.

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(c) Interest rate risk

Market fluctuations in interest rates impact the Company's earnings with respect to cash borrowings under the Credit Facilities. A one-percentage point change in the applicable interest rate would have changed pre-tax net income for the period ended January 30, 2021 by \$1,033 (period ended February 1, 2020 – \$1,152).

(d) Credit risk

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

As at January 30, 2021, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Loan receivable	\$	608
Lease receivable		1,187
Accounts receivable, excluding allowance for doubtful accounts (Note 4)		7,173
	\$	8,968

(e) Capital management

The Company manages its capital and capital structure with the objective of ensuring that sufficient liquidity is available to support its financial obligations and to execute its strategic plans. The Company considers income (loss) before interest expense, income taxes expense (recovery) and depreciation and amortization ("EBITDA") as a measure of its ability to service its debt and meet other financial obligations as they become due.

The Company has financial and non-financial covenants under the Credit Facilities which allow for certain adjustments to EBITDA ("Adjusted EBITDA") for purposes of compliance with those covenants. The key financial covenant includes a consolidated debt to Adjusted EBITDA ratio, a total debt to Adjusted EBITDA ratio, and a fixed charge coverage ratio. As at January 30, 2021, the Company was in compliance with its covenants under the Credit Facilities.

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15. Income taxes expense (recovery)

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

	January 30, 2021	February 1, 2020
Current income taxes expense (recovery)	\$ 2,892	\$ (2,237)
Deferred income taxes expense (recovery):		
Origination and reversal of temporary differences	1,993	(8,219)
Total income taxes expense (recovery)	\$ 4,885	\$ (10,456)

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

	January 30, 2021	February 1, 2020
Combined basic federal and provincial average statutory tax rate	26.5%	26.7%
Non-deductible expenses	2.9%	(4.0)%
Deconsolidation of RTS USA Corp.	(17.6)%	–
Change in unrecognized deferred tax assets	16.6%	(8.3)%
Other	(1.2)%	–
Effective tax rate	27.2%	14.4%

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

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

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

	January 30, 2021	February 1, 2020
Deductible temporary differences	\$ –	\$ 15,594
Tax losses	18,201	6,838
	\$ 18,201	\$ 22,432

For the period ended January 30, 2021, deferred tax assets have not been recognized in respect of capital losses as it is not probable that sufficient capital gains would be available in the future to utilize this attribute. Capital losses can be carried forward indefinitely.

For the period ended February 1, 2020, deferred tax assets have not been recognized in respect of these items, pertaining to RTS USA Corp., as it is not probable that sufficient taxable profit will be available in the future to utilize the benefits. The tax losses begin to expire in 2030.

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

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

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

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16. Contingencies

In the course of its business, the Company, from time to time, becomes involved in various claims and legal proceedings. In the opinion of management, certain claims and suits are adequately covered by insurance. All claims and suits are provided for in accrued liabilities based on management's best estimate of economic outflows required to settle the claims and suits, or are not expected to materially affect the Company's financial position.

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

17. Personnel expenses

	January 30, 2021	February 1, 2020
Wages and salaries	\$ 38,782	\$ 56,115
Benefits and other incentives	6,367	9,129
	<u>\$ 45,149</u>	<u>\$ 65,244</u>

18. Related party transactions

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight Capital Partners, L.P. ("Searchlight") beneficially own approximately 48.6% of the total issued and outstanding Shares and shareholders of a company formerly known as Roots Canada Ltd., through their wholly-owned entities (the "Founders"), beneficially own approximately 12.4% of the total issued and outstanding Shares. All transactions described below are in the normal course of business and have been accounted for at their exchange value.

(a) Transactions with shareholders

The Company leases the building for its leather factory and, until August 2019, leased the building for its former distribution centre, from companies that are under common control of the Founders. For the periods ended January 30, 2021 and February 1, 2020, the rent paid as it relates to the lease of these properties was \$248 and \$616, respectively.

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For the 52-week periods ended January 30, 2021 and February 1, 2020

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(b) Transactions with key management personnel

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

	January 30, 2021	February 1, 2020
Salaries, benefits and incentives, and consulting fees	\$ 2,660	\$ 3,875
Management share-based compensation	446	(1,003)
Director fees	322	548
	<u>\$ 3,428</u>	<u>\$ 3,420</u>

On August 6, 2019, Meghan Roach, a managing director of Searchlight, was appointed as Interim Chief Financial Officer on a temporary secondment basis. Subsequent to the appointment of a new Chief Financial Officer, on January 6, 2020, Ms. Roach was appointed to the role of Interim Chief Executive Officer on a temporary secondment basis. Ms. Roach provided her services at no cost to the Company during this time. On May 26, 2020, the Company announced the appointment of Ms. Roach as the Company's President and Chief Executive Officer, no longer on an interim basis. Ms. Roach continued in this role at minimal cost to the Company through December 31, 2020.

In February 2016, a former member of the Company's executive team purchased 214,193 Shares from Searchlight at a price of \$4.67 per Share. The purchase was paid for using \$500 in cash and a \$500 loan from the Company. The \$500 loan from the Company is to be repaid at the earlier of six years from the loan date and upon a liquidity sale of the Company. Interest accrues at a rate of 4.0% per annum and is payable at the start of each calendar year following the date of the loan. Unpaid interest may be deemed paid by increasing the principal amount outstanding. As at January 30, 2021, the outstanding balance on the loan was \$608 (February 1, 2020 – \$585). The officer resigned from the Company effective August 9, 2019.

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19. Deconsolidation of RTS USA Corp.

On April 29, 2020, the Company's wholly-owned subsidiary formerly known as Roots USA Corporation ("RTS USA Corp.") filed for protection under Chapter 7 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware ("Chapter 7 filing"). The filing resulted in the permanent closure of the Company's stores in Boston, Washington and Chicago, as well as its pop-up location in Woodbury Commons, New York. Roots will maintain a presence in the U.S. market by continuing to operate two longstanding corporate retail stores in Michigan and Utah, as well as its global eCommerce platform.

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

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

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

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20. Government grants

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

The Company has determined that it has qualified for this subsidy from the March 15, 2020 effective date through January 30, 2021 and has, accordingly, applied for, and for certain periods received, the CEWS. The Company also intends to apply for the CEWS in subsequent application periods, subject to continuing to meet the applicable qualification criteria.

For the period ended January 30, 2021, the Company has recognized \$12,822 of CEWS and has recorded it as a reduction to the eligible remuneration expense incurred by the Company during this period. As of January 30, 2021, the Company has received \$12,068 of CEWS and expects to receive the remaining recognized subsidy in the following fiscal quarter.

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

The Company has determined that it has qualified for this subsidy from the September 27, 2020 effective date through January 30, 2021 and has, accordingly, applied for the CERS. The Company also intends to apply for the CERS in subsequent application periods, subject to continuing to meet the applicable qualification criteria.

For the period ended January 30, 2021, the Company has recognized \$696 of CERS and has recorded it as a reduction to the eligible property expense incurred by the Company during this period. As of January 30, 2021, the Company has received \$262 of CERS and expects to receive the remaining recognized subsidy in the following fiscal quarter.

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The following table provides the impacts of the recognized CEWS of \$12,822 and CERS of \$696 within the Company's consolidated financial statements for the period ended January 30, 2021:

	CEWS	CERS
Selling, general and administrative expenses	\$ 9,639	\$ 696
Cost of goods sold	1,607	–
Capitalized in inventories	1,576	–
	\$ 12,822	\$ 696

21. Subsequent events

In the fourth quarter of 2020, in response to a second wave of government mandated lockdowns, the Company temporarily closed corporate retail stores within certain regions of Canada. As of March 11, 2021, the Company had reopened all but two corporate retail stores in these regions.

This month, in accordance with further changes to provincial guidelines, the Company has shifted its store operations to curbside pick-up and eCommerce fulfillment only for certain regions in Québec, effective April 2, 2021, and for the province of Ontario, effective April 8, 2021. This represents two corporate retail stores in Québec, as well as 62 Roots corporate retail stores and five pop-up locations in Ontario. The changes in operation for these locations will be in place for at least 10 days in Québec and four weeks in Ontario.

Corporate Information

Board of Directors

Erol Uzumeri – Chairman
Phil Bacal
Mary Ann Curran
Gregory David
Dale H. Lastman, C.M., O.Ont.
Richard P. Mavrincac
Dexter Peart
Meghan Roach
Joel Teitelbaum

Executive Officers

Meghan Roach
Chief Executive Officer
Mona Kennedy
Chief Financial Officer
James Connell
Chief eCommerce and Customer Experience Officer
Karuna Scheinfeld
Chief Product Officer

Non-Executive Senior Management

Kaleb Honsberger
Senior Vice President, General Counsel and
Corporate Secretary
Ron Ijack
Vice President, Information Strategy and Systems
Melanie Isaac-Taitt
Vice President, Marketing
Karl Kowalewski
Vice President, Leather Factory
Michelle Lettner
Senior Vice President, Human Resources
Melinda McDonald
Vice President, Wholesale and
Business Development

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Share Information

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

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Toronto, ON

Transfer Agent

Computershare
Toronto, ON

Legal Counsel

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