ROOTS CORPORATION

Interim Condensed Consolidated Financial Statements

For the 13 week periods ended May 4, 2019 and May 5, 2018
In Canadian dollars
(Unaudited)

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Financial Position
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Note	As at May 4, 2019	As at February 2, 2019
Assets			
Current assets:			
Cash		$ 495	$ 1,991
Accounts receivable	10	5,384	6,627
Inventories		45,391	49,533
Prepaid expenses		6,615	6,443
Derivative assets	4, 10	1,429	366
Total current assets		59,314	64,960
Non-current assets:			
Loan receivable	10, 12	562	562
Lease receivable		1,721	–
Fixed assets		69,388	64,163
Right-of-use assets	5	134,239	–
Intangible assets		195,668	198,724
Goodwill		52,705	52,705
Total non-current assets		454,283	316,154
Total assets		$ 513,597	$ 381,114
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	10	$ 9,131	$ 12,409
Accounts payable and accrued liabilities	10	18,847	22,291
Deferred revenue		4,660	5,498
Income taxes payable		1,556	6,445
Current portion of lease liabilities	5	28,512	–
Current portion of long-term debt	6, 10	4,984	4,984
Total current liabilities		67,690	51,627
Non-current liabilities:			
Deferred tax liabilities		22,761	22,761
Deferred lease costs		–	10,063
Finance lease obligation	10	–	504
Long-term portion of lease liabilities	5	119,648	–
Long-term debt	6, 10	98,775	80,031
Other non-current liabilities		–	1,424
Total non-current liabilities		241,184	114,783
Total liabilities		308,874	166,410
Shareholders' equity:			
Share capital	7	196,853	196,853
Contributed surplus	9	4,249	3,975
Accumulated other comprehensive income		1,048	268
Retained earnings		2,573	13,608
Total shareholders' equity		204,723	214,704
Total liabilities and shareholders' equity		$ 513,597	$ 381,114

See accompanying notes to unaudited interim condensed consolidated financial statements.

On behalf of the Board of Directors:

"Erol Uzumeri" Director

"Richard P. Mavrinac" Director & Audit Committee Chair

ROOTS CORPORATION

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

For the 13 week periods ended May 4, 2019 and May 5, 2018

	Note	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Sales		$ 54,352	$ 51,029
Cost of goods sold		25,841	21,959
Gross profit		28,511	29,070
Selling, general and administrative expenses		38,164	35,304
Loss before interest expense and income taxes recovery		(9,653)	(6,234)
Interest expense	10	3,559	1,152
Loss before income taxes		(13,212)	(7,386)
Income taxes recovery	11	(3,444)	(1,796)
Net loss		$ (9,768)	$ (5,590)
Basic and diluted loss per share	8	$ (0.23)	$ (0.13)

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 13 week periods ended May 4, 2019 and May 5, 2018

	Note	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Net loss		$ (9,768)	$ (5,590)
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	4, 10	1,362	2,435
Cost of hedging excluded from cash flow hedges	4, 10	86	(14)
Tax impact of cash flow hedges	4, 10	(386)	(645)
Total comprehensive loss		$ (8,706)	$ (3,814)

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 13 week periods ended May 4, 2019 and May 5, 2018

May 4, 2019 (13 weeks)	Note	Share capital	Contributed surplus	Retained earnings (deficit)	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	2	–	–	(1,267)	–	(1,267)
Balance, February 3, 2019		$ 196,853	$ 3,975	$ 12,341	$ 268	$ 213,437
Net loss		–	–	(9,768)	–	(9,768)
Net gain from change in fair value of cash flow hedges, net of income taxes		–	–	–	1,062	1,062
Transfer of realized gain on cash flow hedges to inventories, net of income taxes		–	–	–	(282)	(282)
Share-based compensation	9	–	274	–	–	274
Balance, May 4, 2019		$ 196,853	$ 4,249	$ 2,573	$ 1,048	$ 204,723

May 5, 2018 (13 weeks)	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 4, 2018		$ 195,994	$ 1,675	$ 2,208	$ (904)	$ 198,973
Net loss		–	–	(5,590)	–	(5,590)
Net gain from change in fair value of cash flow hedges, net of income taxes		–	–	–	1,776	1,776
Transfer of realized loss on cash flow hedges to inventories, net of income taxes		–	–	–	8	8
Share-based compensation	9	–	610	–	–	610
Balance, May 5, 2018		$ 195,994	$ 2,285	$ (3,382)	$ 880	$ 195,777

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 13 week periods ended May 4, 2019 and May 5, 2018

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Cash provided by (used in):		
Operating activities:		
Net loss	$ (9,768)	$ (5,590)
Items not involving cash:		
Depreciation and amortization	9,019	2,752
Share-based compensation expense	274	610
Deferred lease recovery	–	(588)
Amortization of lease intangibles	–	136
Interest expense	3,559	1,152
Income taxes recovery	(3,444)	(1,796)
Interest paid	(1,227)	(1,011)
Payment of interest on lease liabilities	(2,177)	–
Taxes paid	(1,268)	(982)
Change in working capital:		
Accounts receivable	1,243	1,071
Inventories	4,142	(3,924)
Prepaid expenses	(172)	23
Accounts payable and accrued liabilities	(3,444)	886
Deferred revenue	(838)	(481)
	(4,101)	(7,742)
Financing activities:		
Issuance of long-term debt	20,000	10,000
Long-term debt financing costs	(163)	–
Repayment of long-term debt	(1,246)	(1,246)
Payment of principal on lease liabilities	(4,523)	(85)
	14,068	8,669
Investing activities:		
Additions to fixed assets	(8,185)	(5,153)
Tenant allowance received	–	471
	(8,185)	(4,682)
Increase (decrease) in cash	1,782	(3,755)
Cash and bank indebtedness, beginning of period	(10,418)	1,809
Cash and bank indebtedness, end of period	$ (8,636)	$ (1,946)

See accompanying notes to unaudited interim condensed consolidated financial statements.

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 that embody a comfortable cabin-meets-city style including: women's and men's apparel, leather goods, footwear, accessories and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As of May 4, 2019, we had 114 corporate retail stores in Canada, seven corporate retail stores in the United States, 115 partner-operated stores in Taiwan, 39 partner-operated stores in China, one partner-operated store in Hong Kong, and a global eCommerce platform. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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

The Company experiences seasonal fluctuations in the financial results of its retail business, as a meaningful portion of its sales and earnings occur in the third and fourth fiscal quarters. The Company's working capital requirements generally increase in the periods preceding these peak periods, and it is not uncommon for EBITDA (as defined below) to be negative in the first two fiscal quarters.

Basis of presentation

(a) Statement of compliance:

These interim condensed consolidated financial statements (the "interim financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and the accounting policies described in the Company's audited consolidated financial statements as at and for the 52 week period ended February 2, 2019 ("annual financial statements"), except for the new standards adopted during the 13 week period ended May 4, 2019, as described below. They do not include all of the information required for a complete set of International Financial Reporting Standards ("IFRS") financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the annual financial statements.

These interim financial statements were authorized for issue by the Company's Board of Directors on June 11, 2019.

(b) Basis of measurement:

The interim financial statements were prepared on a historical cost basis, except for derivative financial instruments and share-based compensation, which are measured at fair value.

(c) Use of estimates and judgments:

In preparing these interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements, except as described in Note 2.

2. Significant accounting policies

Except as described below, the significant accounting policies as disclosed in the annual financial statements have been applied consistently in the preparation of these interim financial statements:

(a) New standards and interpretations adopted in the period:

In 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17 ("IAS 17"), Leases, and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The lessee recognizes a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessors continue to classify leases as finance and operating leases.

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

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

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

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

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

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

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

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

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

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

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

Recorded in the interim condensed consolidated Statement of Financial Position as follows:

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

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

Leased assets

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

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

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

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

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

Subleases

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

Use of estimates and judgments in lease accounting

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

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

(b) New standards and interpretations not yet adopted:

The IASB has not issued any significant new accounting standards that impact the Company since the standards described in the most recent annual financial statements for the year ended February 2, 2019. The Company continues to monitor future IFRS changes proposed by the IASB that may have an impact on the Company's results.

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

3. Operating segments

The Company has two reportable operating segments:

(a) The "Direct-to-Consumer" segment comprises sales through corporate retail stores and 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 consists of royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

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

			May 4, 2019 (13 weeks)			May 5, 2018 (13 weeks)
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	$ 46,605	$ 7,747	$ 54,352	$ 44,162	$ 6,867	$ 51,029
Cost of goods sold	21,100	4,741	25,841	18,066	3,893	21,959
Gross profit	25,505	3,006	28,511	26,096	2,974	29,070
Selling, general and administrative expenses[1]			38,164			35,304
Loss before interest expense and income taxes recovery			(9,653)			(6,234)
Interest expense[1]			3,559			1,152
Loss before income taxes			$ (13,212)			$ (7,386)

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

4. 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.

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

There were no transfers between levels of the fair value hierarchy for the 13 week periods ended May 4, 2019 and May 5, 2018.

The Company enters into forward contracts, from time to time, to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at May 4, 2019, the Company has outstanding forward contracts to buy U.S. $42,885 (February 2, 2019 – U.S. $42,460) at an average forward rate of 1.31 (February 2, 2019 – 1.30).

For the 13 week periods ended May 4, 2019 and May 5, 2018, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a gain of $1,362 (net of tax - $999) and a gain of $2,435 (net of tax – $1,790), respectively, which were recorded in other comprehensive income (loss).

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

5. Leases

The following table reconciles the change in right-of-use assets for the 13 week period ended May 4, 2019:

	Cost	Accumulated Depreciation	Net Book Value
Balance, February 3, 2019	$ 137,294	$ –	$ 137,294
Additions	909	–	909
Modifications of leases	1,854	–	1,854
Depreciation	–	(5,818)	(5,818)
Total right-of-use assets, May 4, 2019	$ 140,057	$ (5,818)	$ 134,239

The following table reconciles the change in lease liabilities for the 13 week period ended May 4, 2019:

	May 4, 2019 (13 weeks)
Balance, February 3, 2019	$ 149,920
Additions	909
Modifications of leases	1,854
Accretion of lease liabilities	2,177
Repayment of interest and principal on lease liabilities	(6,700)
Total lease liabilities, May 4, 2019	$ 148,160

Recorded in the interim condensed consolidated Statement of Financial Position as follows:

Current portion of lease liabilities	$ 28,512
Long-term portion of lease liabilities	119,648
	$ 148,160

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

6. 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, the "Credit Facilities").

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

The following table reconciles the changes in cash flows from financing activities for long-term debt for the 13 week periods ended May 4, 2019 and May 5, 2018:

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Long-term debt, beginning of period	$ 85,015	$ 84,465
Long-term debt issuances under revolving credit loan	20,000	10,000
Long-term debt repayments of term loan	(1,246)	(1,246)
Long-term debt financing costs	(163)	–
Total cash flow from long-term debt financing activities	18,591	8,754
Amortization of long-term debt financing costs	153	148
Total non-cash long-term debt activity	153	148
Total long-term debt, end of period	$ 103,759	$ 93,367

Recorded in the interim condensed consolidated Statement of Financial Position as follows:

Current portion of long-term debt	$ 4,984	$ 4,984
Long-term portion of long-term debt	98,775	88,383
	$ 103,759	$ 93,367

7. 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 13 week periods ended May 4, 2019 and May 5, 2018.

There were no changes to the Company's share capital for the 13 week periods ended May 4, 2019 or May 5, 2018.

As at May 4, 2019, there were 42,120,231 Shares and no preferred shares issued and outstanding (February 2, 2019 – 42,120,231). All issued Shares are fully paid.

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

8. Loss per share

The Company presents basic and diluted loss per share data for its Shares. Basic loss per share is calculated by dividing net loss by the weighted average number of Shares outstanding during the period. Diluted loss per share is determined by adjusting net 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.

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Weighted average Shares outstanding	42,120,231	41,980,500
Impact of share-based compensation	–	–
Diluted weighted average Shares outstanding	42,120,231	41,980,500

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Net loss	$ (9,768)	$ (5,590)
Basic and diluted loss per share	$ (0.23)	$ (0.13)

For the 13 week periods ended May 4, 2019 and May 5, 2018, 1,602,073 and 1,850,841 performance-based stock options, respectively, were not included in the calculation of basic or diluted loss per share as the conditions required to convert these options to shares were not met.

For the 13 week periods ended May 4, 2019 and May 5, 2018, 1,996,875 and 1,575,033 time-based options, respectively, were not included in the calculation of basic or diluted loss per share as they were either anti-dilutive or not ‘in the money’.

For the 13 week periods ended May 4, 2019 and May 5, 2018, 277,199 and 57,138 restricted share units (“RSUs”), respectively, were not included in the calculation of basic or diluted loss per share as they were anti-dilutive.

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

9. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy approximately 4.7 million Shares. As at May 4, 2019, approximately 3.6 million stock options and 0.3 million RSUs were granted and outstanding.

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

For the 13 week period ended May 4, 2019	Legacy Equity Incentive Plan		Legacy Employee Option Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	2,375,884	$ 4.78	465,858	$ 6.26	421,523	$ 12.01	3,263,265	$ 5.93
Granted	–	–	–	–	667,207	4.51	667,207	4.51
Forfeited	(293,037)	5.14	–	–	(38,487)	12.15	(331,524)	5.95
Outstanding options, end of period	2,082,847	$ 4.73	465,858	$ 6.26	1,050,243	$ 7.24	3,598,948	$ 5.66
Exercisable options, end of period	330,933	$ 4.78	155,288	$ 6.26	42.296	$ 11.69	528,517	$ 5.77

For the 13 week period ended May 5, 2018	Legacy Equity Incentive Plan		Legacy Employee Option Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	2,515,615	$ 4.77	497,986	$ 6.26	300,649	$ 11.87	3,314,250	$ 5.64
Granted	–	–	–	–	122,333	12.78	122,333	12.78
Forfeited	–	–	(10,709)	6.26	–	–	(10,709)	6.26
Outstanding options, end of period	2,515,615	$ 4.77	487,277	$ 6.26	422,982	$ 12.13	3,425,874	$ 5.89
Exercisable options, end of period	325,498	$ 4.76	–	$ –	–	$ –	325,498	$ 4.76

The fair value of stock options granted during the 13 week period ended May 4, 2019 was $1,051 (May 5, 2018 – $494).

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

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

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Expected volatility	33.0% - 33.7%	27.0% - 28.4%
Share price at grant date	$4.51	$12.77 - $13.07
Exercise price	$4.51	$12.77 - $13.07
Risk-free interest rate	1.58% - 1.60%	2.21% - 2.23%
Expected term	5.5 years - 6.5 years	6 years - 6.5 years
Fair value per option	$1.52 - $1.63	$3.95 - $4.38

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

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

For the 13 week period ended May 4, 2019	Legacy Equity Incentive Plan	Omnibus Plan	DSU Plan	Total	
	Number of RSUs	Number of RSUs	Number of DSUs	Number of RSUs	Number of DSUs
Units, beginning of period	15,985	43,087	34,237	59,072	34,237
Granted	–	220,448	51,738	220,448	51,738
Forfeited	–	(2,571)	–	(2,571)	–
Units, end of period	15,985	260,964	85,975	276,949	85,975

For the 13 week period ended May 5, 2018	Legacy Equity Incentive Plan	Omnibus Plan	DSU Plan	Total	
	Number of RSUs	Number of RSUs	Number of DSUs	Number of RSUs	Number of DSUs
Units, beginning of period	15,985	–	–	15,985	–
Granted	–	41,153	6,637	41,153	6,637
Units, end of period	15,985	41,153	6,637	57,138	6,637

The fair value of RSUs granted during the 13 week period ended May 4, 2019 was $993 (May 5, 2018 – $526). There were 17,985 RSUs vested as at May 4, 2019 (May 5, 2018 – 15,985).

The fair value of DSUs granted during the 13 week period ended May 4, 2019 was $235 (May 5, 2018 – $85).

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.

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

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:

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Legacy Equity Incentive Plan	$ (31)	$ 216
Legacy Employee Option Plan	89	229
Omnibus Plan	216	165
Total share-based compensation expense	$ 274	$ 610

10. Financial risk management

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

(a) Liquidity risk:

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

The Company maintains credit facilities, as described below, allowing it to access funds for operations.

The contractual maturities of the Company's current and long-term financial liabilities as at May 4, 2019, excluding interest payments, are as follows:

			Remaining to maturity			
	Carrying amount	Contractual cash flows	Under 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Bank indebtedness	$ 9,131	$ 9,131	$ 9,131	$ –	$ –	$ –
Accounts payable and accrued liabilities	18,847	18,847	18,847	–	–	–
Long-term debt	103,759	105,954	4,984	9,968	91,002	–
Lease liabilities	148,160	184,189	29,782	51,411	43,052	59,944
	$ 279,897	$ 318,121	$ 62,744	$ 61,379	$ 134,054	$ 59,944

(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 loss before income taxes for the 13 week period ended May 4, 2019 by $150 (13 week period ended May 5, 2018 - $300), as a result of the revaluation on these financial assets and liabilities.

The Company purchases a significant amount of its merchandise in U.S. dollars and enters into forward contracts to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The Company has performed a sensitivity analysis on its forward contracts (designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed other comprehensive income for the 13 week period ended May 4, 2019 by $2,852 (13 week period ended May 5, 2018 - $3,323), as a result of the revaluation on the Company's outstanding forward contracts.

(c) Interest rate risk:

Market fluctuations in interest rates impact the Company's earnings with respect to cash borrowings under the credit facilities. A one percentage point change in the applicable interest rate would have changed loss before income taxes for the 13 week period ended May 4, 2019 by $240 (13 week period ended May 5, 2018 - $226).

(d) Credit risk:

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

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

As at May 4, 2019, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Loan receivable	$ 562
Lease receivable	1,721
Accounts receivable, excluding allowance for doubtful accounts	5,471
	$ 7,754

(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 12-month EBITDA as a measure of its ability to service its debt and meet other financial obligations as they become due.

The Company has financial and non-financial covenants under the Credit Facilities which allow for certain adjustments to EBITDA ("Adjusted EBITDA") for purposes of compliance with those covenants. The key financial covenant includes a consolidated debt to Adjusted EBITDA ratio, total debt to Adjusted EBITDA ratio, and fixed charge coverage ratio. As at May 4, 2019, the Company was in compliance with its covenants under the Credit Facilities.

11. Income taxes

Income taxes recovery for the 13 week period ended May 4, 2019 was $3,444 (13 week period ended May 5, 2018 - $1,796), resulting in an effective income taxes recovery rate for the 13 week period ended May 4, 2019 of 26.1% (13 week period ended May 5, 2018 – 24.3%). The increase in the effective tax recovery rate compared to the first quarter of 2018 was primarily attributable to lower non-deductible share-based compensation expenses incurred in the current period.

12. Related party transactions

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight Capital Partners, L.P. ("Searchlight") beneficially own approximately 48.7% of the total issued and outstanding Shares and shareholders of a company formerly known as Roots Canada Ltd. through their wholly-owned entities (the "Founders") beneficially own approximately 12% of the total issued and outstanding Shares. All transactions as described in the table below are in the normal course of business and have been accounted for at their exchange value.

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

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

	May 4, 2019 (13 weeks)	May 5, 2018 (13 weeks)
Rent[(1)]	$ 217	$ 198
Reimbursements[(2)]	4	17

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

(2) Under a consulting agreement between the Company and the Founders, the Founders and their spouses were entitled to consulting fees, clothing allowances and reimbursement for certain travel, meals and phone expenses. These agreements were terminated subsequent to the closing of the Company's initial public offering. Accordingly, the Company is no longer required to pay consulting fees or reimbursements of expenses previously incurred, with exception to agreed-upon clothing allowances.

In February 2016, a member of the Company's executive team purchased 214,193 Shares from Searchlight at a price of $4.67 per Share. The purchase was paid for using $500 in cash and a $500 loan from the Company. The $500 loan from the Company is to be repaid at the earlier of six years from the loan date and upon a liquidity sale of the Company. Interest accrues at a rate of 4% per annum and will be payable at the start of each calendar year following the date of the loan. Unpaid interest may be deemed paid by increasing the principal amount outstanding. As at May 4, 2019, the outstanding balance on the loan was $562 (February 2, 2019 – $562).