



ROOTS CORPORATION

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

(Fiscal Year Ended February 1, 2020)

The following Management's Discussion and Analysis ("**MD&A**") dated April 28, 2020 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Roots Corporation (together with its consolidated subsidiaries, referred to herein as "**Roots**", the "**Company**", "**us**", "**we**" or "**our**"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and the fiscal year ended February 1, 2020. This MD&A should be read in conjunction with our audited consolidated financial statements for the fiscal year ended February 1, 2020, including the related notes thereto (the "**Annual Financial Statements**").

Basis of Presentation

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

All references in this MD&A to "**Q4 2019**" are to our fiscal quarter for the 13-week period ended February 1, 2020, and all references to "**Q4 2018**" are to our fiscal quarter for the 13-week period ended February 2, 2019. All references in this MD&A to "**F2019**" are to the 52-week fiscal year ended February 1, 2020, all references to "**F2018**" are to the 52-week fiscal year ended February 2, 2019, and all references to "**F2017**" are to the 53-week fiscal year ended February 3, 2018.

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

The Annual Financial Statements and this MD&A were reviewed by our Audit Committee and approved by our Board of Directors (the "**Board**") on April 28, 2020.

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

Cautionary Note Regarding Non-IFRS Measures and Industry Metrics

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

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

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

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

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

"Adjusted EBITDA" is defined as EBITDA, adjusted for the impact of certain income and expenses that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods difficult. Beginning in the first quarter of F2019 ("**Q1 2019**"), the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted EBITDA for Q4 2019 and F2019 has been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. For additional information relating to the adoption of IFRS 16, see "New Accounting Standards Adopted in the Year". We believe that Adjusted EBITDA is useful, to both management and investors, in assessing the underlying performance of our ongoing operations and our ability to generate cash flows to fund our cash requirement.

“Adjusted Net Income (Loss)” is defined as net income (loss), adjusted for the impact of certain income and expenses that are non-recurring, infrequent, or unusual in nature, and would make comparisons of underlying financial performance between periods difficult, net of related tax effects. Beginning in Q1 2019, the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted Net Income (Loss) for Q4 2019 and F2019 has been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. For additional information relating to the implementation of IFRS 16, see “New Accounting Standards Adopted in the Year”. We believe that Adjusted Net Income (Loss) is useful, to both management and investors, in assessing the underlying performance of our ongoing operations.

“Adjusted Net Income (Loss) per Share” is defined as Adjusted Net Income (Loss), divided by the weighted average common shares outstanding during the periods presented. Beginning in Q1 2019, the Company adopted IFRS 16 using the modified retrospective approach. As a result of this approach, the comparative period has not been restated. To improve the comparability of underlying performance with periods prior to our adoption of IFRS 16, Adjusted Net Income (Loss) per Share for Q4 2019 and F2019 has been adjusted to exclude, in addition to certain other adjustments, the impact of IFRS 16. For additional information relating to the implementation of IFRS 16, see “New Accounting Standards Adopted in the Year”. We believe that Adjusted Net Income (Loss) per Share is useful, to both management and investors, in assessing the underlying performance of our ongoing operations, on a per share basis.

“Comparable Sales Growth (Decline)” is a retail industry metric used to compare the percentage change in sales derived from mature stores and eCommerce, in a certain period, compared to the prior year sales from the same stores and eCommerce, over the same time period of the prior fiscal year. We believe Comparable Sales Growth (Decline) helps explain our sales growth (or decline) in established stores and eCommerce, which may not otherwise be apparent when relying solely on year-over-year sales comparisons. Comparable Sales Growth (Decline) is calculated based on sales (net of a provision for returns) from stores that have been opened for at least 52 weeks in our DTC segment, including eCommerce sales (net of a provision for returns) in our DTC segment, and excludes sales from stores during periods where the store was undergoing renovation.

Comparable Sales Growth (Decline) also excludes the impact of foreign currency fluctuations. Beginning in the second quarter of F2018 (“**Q2 2018**”), we changed our calculation methodology in order to be more consistent with other retailers by applying the prior year’s U.S. dollar to Canadian dollar exchange rates to both current year and prior year comparable sales to achieve a consistent basis for comparison. Prior to Q2 2018, Comparable Sales Growth (Decline) was calculated and presented using a U.S. dollar to Canadian dollar exchange rate of 1:1. The prior fiscal quarters presented in this MD&A have been recalculated and presented using this new constant currency calculation. Our Comparable Sales Growth (Decline) may be calculated differently compared to other companies.

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

Cautionary Note Regarding Forward-Looking Information

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

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

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

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

Overview

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

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

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

Factors Affecting our Performance

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

Brand Awareness

The Roots brand is well-known in Canada and Taiwan, with locations also in the United States, mainland China and Hong Kong, as well as a growing awareness internationally. Any loss of brand appeal from factors such as changing consumer trends and increased competition may adversely affect our business and financial results. To address this, we focus on building our brand and strengthening our brand voice through innovative, impactful brand initiatives as well as delivering customer insight-driven product designs. In addition, we work to best position our brand and business globally by leveraging the operational investments that we have made and growing our omni-channel footprint.

Our Omni-Channel Business

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

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

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

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

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

Our International Operating Partner

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

Product Development and Merchandising

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

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

Our business is affected by our ability to continue to develop products that resonate with consumers, and we are working to accelerate our product development as we continue to introduce products to mitigate the seasonal nature of our business (as further described below) and expand our addressable geographic market.

Foreign Exchange

We generate the majority of our revenues in Canadian dollars, while a significant portion of our cost of goods sold is denominated in U.S. dollars, which exposes us to fluctuations in foreign currency exchange rates. Commencing in F2017, we entered into hedging arrangements to help mitigate the risks associated with fluctuations in the U.S. dollar relative to the Canadian dollar. See “Financial Instruments” for a further discussion of our hedging arrangements.

Seasonality

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

First fiscal quarter	15%
Second fiscal quarter	17%
Third fiscal quarter	26%
Fourth fiscal quarter	42%
Annual Total	<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.

Novel Coronavirus

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

- Customer demand will be the most significant issue amidst the uncertainty in the global economy, negatively impacting our corporate retail stores, as well as the businesses of our international operating partner and our North American wholesale and retail partners;
- While eCommerce sales should fare better than retail, we may nevertheless suffer significant sales losses as overall customer demand and consumer spending is expected to decline significantly in response to COVID-19 and the related global economic impacts; and
- We may also face challenges through our supply chain network if there are disruptions in service at our distribution centre, third-party logistics fulfillment partners, suppliers, manufacturing facilities or logistics providers.

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

Consumer Trends

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

Segments

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

Our DTC and Partners and Other segments contributed 87.2% and 12.8% of our sales, respectively, in F2019 (F2018 – 86.3% and 13.7% of our sales, respectively).

Summary of Financial Performance

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

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

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

Note:

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

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

Selected Financial Results for Q4 2019 Compared to Q4 2018

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

Selected Financial Results for F2019 Compared to F2018

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

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

Key Operational Developments

Real Estate

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

In particular, during Q4 2019, we:

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

Note:

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

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

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

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

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

International Partnership

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

Components of our Results of Operations

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

Sales

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

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

Gross Profit

Gross profit is our sales less cost of goods sold. Cost of goods sold includes the cost of purchasing our products from manufacturers, including direct purchase costs, freight costs, and duty and non-refundable taxes. For select leather products manufactured by us in-house, cost of goods sold includes the cost of manufacturing our products, including raw materials, direct labour and overhead, plus freight costs. Cost of goods sold also includes variable distribution centre costs incurred to prepare our inventory for sale. As a result of our transition to a single Roots-operated distribution centre, in connection with the DC Relocation Project, commencing in Q3 2019 cost of goods sold also includes variable distribution centre costs incurred to fulfill our eCommerce orders. Previously, eCommerce order fulfillment costs, incurred through our third-party online order fulfillment and distribution facility, was recorded in SG&A.

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

The primary driver of our cost of goods sold is the cost of purchased products from our manufacturers, which is predominantly sourced in U.S. dollars. In F2017, we implemented a hedging program to manage our foreign currency risk related to U.S. dollar inventory purchases. See “Financial Instruments”.

Selling, General and Administrative Expenses

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

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

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

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

Interest Expense

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

Income Taxes

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

Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below for F2019 and F2018 has been derived from our Annual Financial Statements. Unless otherwise indicated, financial information includes the impact of the implementation of IFRS 16. The selected consolidated financial information set out below for Q4 2019 and Q4 2018 is unaudited.

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

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

Consolidated Statement of Financial Position Data:

CAD \$000s (except per Share amounts)	As at February 1, 2020	As at February 2, 2019
Current assets ⁽¹⁾	\$53,677	\$64,960
Non-current assets ⁽¹⁾	387,097	316,514
Current liabilities ⁽¹⁾	67,208	51,627
Non-current liabilities ⁽¹⁾	223,060	114,783

Note:

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

Results of Operations

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

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

Sales

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

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

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

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

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

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

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

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

Gross Profit

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

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

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

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

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

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

Selling, General and Administrative Expenses

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

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

Goodwill Impairment

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

Interest Expense

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

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

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

Income Taxes Expense (Recovery)

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

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

Net Income (Loss)

Net loss was \$(44,577) in Q4 2019 as compared to net income of \$18,276 in Q4 2018, representing a decrease of \$62,853. During F2019, net loss was \$(62,029) as compared to net income of \$11,400 in F2018, representing a decrease of \$73,429. The decrease in net income (loss) results from the factors described above.

Quarterly Financial Information

The following table summarizes the results of our operations for the eight most recently completed fiscal quarters. Unless otherwise indicated, financial information includes the impact of the implementation of IFRS 16. This unaudited quarterly information, other than Comparable Sales Growth (Decline), has been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

CAD \$000s (except per Share data) (Unaudited)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Sales	127,453	86,377	61,683	54,352	130,823	86,979	60,197	51,029
Net Income (Loss)	(44,577)	1,969	(9,653)	(9,768)	18,276	2,795	(4,081)	(5,590)
Net Earnings (Loss) per Share:								
Basic earnings (loss) per Share . . .	\$ (1.06)	\$0.05	\$(0.23)	\$(0.23)	\$ 0.43	\$ 0.07	\$(0.10)	\$ (0.13)
Diluted earnings (loss) per Share . .	\$ (1.06)	\$0.05	\$(0.23)	\$(0.23)	\$ 0.43	\$ 0.07	\$(0.10)	\$ (0.13)
Other Performance Measures								
Comparable Sales Growth (Decline) ⁽¹⁾	(1.8)%	3.0%	(2.9)%	1.5%	3.1%	(13.4)%	1.1%	6.8%
Corporate retail stores, end of period	122	122	124	121	121	125	122	120

Note:

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

Summary of Non-IFRS Measures

The table below illustrates our Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Share for the periods presented:

CAD \$000s (except per Share data)	Q4 2019	Q4 2018	F2019	F2018
Adjusted DTC Gross Profit	65,957	74,574	162,630	173,816
Adjusted DTC Gross Margin	55.4%	61.8%	56.5%	61.2%
EBITDA ⁽¹⁾	(34,448)	30,374	(17,312)	34,635
Adjusted EBITDA	26,053	34,784	26,068	41,903
Adjusted Net Income	13,269	22,345	4,018	20,179
Adjusted Net Income per Share	\$0.31	\$0.53	\$0.10	\$0.48

Note:

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

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

Reconciliation of Non-IFRS Measures

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

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

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

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

Notes:

- (a) In F2018, we commenced preparations for the DC Relocation Project. During the period of transition, we incurred expenses related to, among other things, training, testing and administrative costs, along with rent and other operating costs in connection with the need to operate two distribution centres simultaneously. These expenses would not be incurred as part of our normal business operations and are not recurring.
- (b) The impact of IFRS 16 in Q4 2019 and F2019 was: (i) an increase to SG&A expenses of \$2,018 and an decrease to SG&A expenses of \$1,411, respectively, which comprised the impact of depreciation and impairment on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of \$2,261 and \$9,048, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax recovery impact of \$519 and \$1,414, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. See “New Accounting Standards Adopted in the Year”.
- (c) Represents a one-time reimbursement paid by Roots to our international operating partner related to import taxes in Taiwan incurred by our partner in respect of certain footwear categories shipped from China.
- (d) As a result of the Acquisition, we recognized an intangible asset for lease arrangements in the amount of \$6,310, which when excluding the impacts of IFRS 16, is amortized over the life of the leases and included in SG&A expenses. In our view, this cost does not reflect the underlying profitability of the business and would reduce the ability to compare such underlying results to historical periods prior to the Acquisition.
- (e) In connection with our initial public offering (“IPO”), we incurred expenses related to professional fees, legal, consulting, accounting, and travel that would otherwise not have been incurred and are not recurring.
- (f) Represents a non-cash impairment charge taken against certain leasehold improvements for stores where the recoverable amount is deemed to be below the carrying value. Of the total non-cash impairment charge taken, \$12,738 pertains to impairment of leasehold improvements at the New U.S. stores.
- (g) Represents a non-cash impairment charge taken against goodwill of the DTC CGU (as defined below) as the recoverable amount is deemed to be below the carrying value.
- (h) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Incentive Plan.

- (i) As a result of the Canada Post labour disruption in Q4 2018, we incurred incremental shipping costs relating to the use of an alternative shipping partner to fulfill orders. Management is of the view that these labour disruptions are infrequent in nature, and do not reflect the underlying costs to fulfill orders as part of our normal business operations.
- (j) Represents expenses incurred in respect of the Company's efforts to recruit for vacancies in key management positions and severance costs associated with such employee separations.
- (k) Predominately represents expenses incurred in respect of the following matters: (i) consulting costs relating to a non-recurring brand positioning project, (ii) costs incurred related to rationalizing our store portfolio, and (iii) contract cancellation costs incurred as the Company continues to review and optimize its operating costs. Management has determined that these projects are infrequent in nature and, accordingly, such matters do not reflect the underlying profitability of the business and their inclusion would, therefore, reduce the ability to compare such underlying results to historical periods.
- (l) Under IFRS, prior to the adoption of IFRS 16, we were required to recognize rent expense on a straight-line basis over the life of the lease. This adjustment removes the portion of the straight-line rent adjustment that is non-cash expense in the prior year comparative period.
- (m) As a result of the Acquisition, intangibles relating to customer relationships of \$7,766 with a useful life of 10 years and licensing arrangements of \$25,910 with useful lives ranging from four to 13 years were recognized in accordance with IFRS 3, *Business Combinations*. The amortization expense resulting from the recognition of these intangible assets are non-cash in nature and are a direct result of the Acquisition. If the Acquisition had not occurred, such intangibles would not have been recognized and, consequently, the associated expenses would not have been incurred. Management is of the view that these costs do not reflect the underlying profitability of the business and would, therefore, reduce the ability to compare such underlying results to historical periods prior to the Acquisition.
- (n) Adjusted EBITDA excludes the impact of IFRS 16 in Q4 2019 and F2019. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2019 and F2019, Adjusted EBITDA would have been \$30,221 and \$51,618, respectively.
- (o) Adjusted Net Income excludes the impact of IFRS 16 in Q4 2019 and F2019. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2019 and F2019, Adjusted Net Income (Loss) would have been \$9,466 and \$(2,632), respectively.

Financial Condition, Liquidity and Capital Resources

Overview

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

Cash Flows

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

CAD\$000s	Q4 2019	Q4 2018	F2019	F2018
Net cash generated from operating activities	44,834	46,832	40,044	19,364
Net cash generated from (used in) financing activities. . .	(46,908)	(36,327)	(13,583)	241
Net cash used in investing activities	(2,847)	(8,869)	(22,320)	(31,832)
Change in cash and bank indebtedness	(4,921)	1,636	4,141	(12,227)

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

Cash Flows from Operating Activities

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

Cash Flows from (used in) Financing Activities

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

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

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

Cash Flows used in Investing Activities

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

Indebtedness

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

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

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

The Credit Facilities bear interest according to the type of borrowing advanced, which may be based on a reference rate of the U.S. base rate or the Canadian prime rate, plus a margin that ranges from 100 to 225 basis points (“**bps**”) or the LIBOR rate or bankers’ acceptances rate, plus a margin that ranges from 200 to 325 bps. The applicable margins are derived from our senior leverage ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 100 bps at less than 2.0x senior leverage ratio, to 225 bps at greater than or equal to 3.5x senior leverage ratio; and (ii) where the LIBOR rate or bankers’ acceptances rate is used, the margins range from 200 bps at less than 2.0x senior leverage ratio, to 325 bps at greater than or equal to 3.5x senior leverage ratio.

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

See also “Subsequent Events”.

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

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

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our significant contractual obligations and other obligations as well as our off-balance sheet arrangements as at February 1, 2020:

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

Notes:

- (1) The repayment of the Term Credit Facility may occur prior to the mandatory repayment time if certain events occur and/or at the discretion of the Company.
- (2) Based on the interest rate in effect as at February 1, 2020, and assuming no prepayments are made to the Term Credit Facility.
- (3) Remaining lease obligations include obligations on leases that have been excluded from lease liabilities under IFRS 16 either due to recognition exemptions for leases with less than one year remaining as of the date of adoption or due to contractual commitments for leases with future commencement dates. Remaining lease obligations reflect minimum annual commitments for our operating leases on those premises, excluding renewal options and variable rent.
- (4) Inventory purchase commitments reflect the cost of outstanding inventory purchases ordered from our vendors and expected to be received within the period. Inventory purchases are part of the normal course of our business and will be primarily funded through sales in our DTC segment.

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

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

Financial Instruments

Commencing in F2017, we have designated foreign currency forward contracts as a cash flow hedge to manage our exposure to certain U.S. dollar denominated purchases. At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy in undertaking the hedge transaction. At inception and each fiscal quarter-end thereafter, the Company formally assesses the effectiveness of the cash flow hedges.

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

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

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

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

Current Share Information

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

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

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

Related Party Transactions

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight Capital Partners, L.P. ("Searchlight") beneficially own approximately 48.7% of the total issued and outstanding Shares and shareholders of a company formerly known as Roots Canada Ltd., through their wholly-owned entities (the "Founders") beneficially own approximately 12.0% of the total issued and outstanding Shares. All transactions as described in the table below are in the normal course of business and have been accounted for at their exchange value

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

CAD \$000s	Q4 2019	Q4 2018	F2019	F2018
Rent ⁽¹⁾	71	199	616	794

Notes:

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

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

In February 2016, a former member of the Company's executive team purchased the equivalent of 214,193 Shares from Searchlight at a price of \$4.67 per Share. The purchase was paid for using \$500 in cash and a \$500 loan from the Company. The \$500 loan from the Company is to be repaid at the earlier of six years from the loan date and upon a liquidity sale of the Company. Interest accrues at a rate of 4.0% per annum and will be payable at the start of each calendar year following the date of the loan. Unpaid interest may be deemed paid by increasing the principal amount outstanding. As at February 1, 2020, the outstanding balance on the loan and accrued interest was \$585 (February 2, 2019 – \$562). The officer resigned from the Company effective August 9, 2019.

F2019 Financial Outlook Results

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

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

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

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

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

Risks and Uncertainties

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

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

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

Foreign Currency Exchange Risk

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

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

Interest Rate Risk

We are exposed to changes in interest rates on our cash and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. As of February 1, 2020, we only have variable interest rate debt. Based on the outstanding borrowings as discussed under “Indebtedness”, a one percentage point change in the average interest rate on our borrowings would have changed interest expense by \$290 in Q4 2019 and \$1,152 in F2019. The impact of future interest rate expense resulting from future changes in interest rates will depend largely on the gross amount of our borrowings at such time.

Credit Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. We manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of our sales, income and working capital needs. The Revolving Credit Facility is also used to maintain liquidity. See “Factors Affecting our Performance” and “Indebtedness”.

Disclosure Controls and Procedures

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

An evaluation of the design of the Company’s disclosure controls and procedures, as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”), was carried out under the supervision of the CEO and CFO and with the participation of the Company’s management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as of February 1, 2020.

Although the Company’s disclosure controls and procedures were operating effectively as of February 1, 2020, there can be no assurance that the Company’s disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company’s regulatory filings.

Internal Control over Financial Reporting

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

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework and criteria established in “Internal Control – Integrated Framework” published by The Committee of Sponsoring Organizations of the Treadway Commission, 2013”. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company’s internal controls over financial reporting, as defined by NI 52-109, were effective as at February 1, 2020.

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

Critical Accounting Estimates and Judgments

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

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

Inventory valuation

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

Impairment of non-financial assets

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

In determining the recoverable amount, defined as the higher of the FVLCS and the VIU of a CGU or a group of CGUs, various estimates are used. VIU is determined based on management's best estimate of projected future sales, gross profit margin and earnings which is discounted by using an estimate of industry pre-tax weighted average cost of capital adjusted for the Company's estimated risk profile.

Share-based compensation

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

Gift card breakage

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

Income taxes

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

Leases

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

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

New Accounting Standards Adopted in the Year

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

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

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

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

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

- contracts that were identified as leases under IAS 17 were not reassessed under IFRS 16;
- a single discount rate was applied to a portfolio of leases with reasonably similar underlying characteristics;
- certain short-term leases were excluded from IFRS 16 lease accounting;

- initial direct costs were excluded in the measurement of the ROU asset on transition; and
- hindsight was used in determining the lease term at the end of initial application.

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

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

Subsequent Events

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

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

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

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

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

Additional Information

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