ROOTS CORPORATION

Interim Condensed Consolidated Financial Statements

For the 13 week periods ended May 1, 2021 and May 2, 2020
In Canadian dollars
(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice to this effect. The accompanying unaudited interim condensed consolidated financial statements of Roots Corporation have been prepared by and are the responsibility of management of Roots Corporation.

Roots Corporation's independent auditor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the accompanying interim condensed consolidated financial statements. Readers are cautioned that these financial statements may not be appropriate for their intended purposes.

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	Note	May 1, 2021	January 30, 2021
Assets			
Current assets:			
Cash	12	$ 4,578	$ 9,166
Accounts receivable	9	7,654	7,165
Inventories	12	42,493	42,401
Prepaid expenses		3,021	3,137
Total current assets		57,746	61,869
Non-current assets:			
Loan receivable	9, 11	608	608
Lease receivable	9	1,103	1,187
Fixed assets	12	46,439	47,981
Right-of-use assets	12	77,983	79,995
Intangible assets		190,205	190,777
Goodwill		7,906	7,906
Total non-current assets		324,244	328,454
Total assets		$ 381,990	$ 390,323
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	9	$ 495	$ –
Accounts payable and accrued liabilities	9, 12	17,391	25,850
Deferred revenue		5,447	5,759
Income taxes payable		3,237	5,955
Current portion of lease liabilities	9, 12	22,503	22,197
Current portion of long-term debt	5, 9	4,984	4,984
Derivative obligations	4, 9	813	418
Total current liabilities		54,870	65,163
Non-current liabilities:			
Deferred tax liabilities		16,170	15,891
Long-term portion of lease liabilities	9, 12	76,386	78,989
Long-term debt	5, 9	75,532	66,100
Total non-current liabilities		168,088	160,980
Total liabilities		222,958	226,143
Shareholders' equity:			
Share capital	6	197,333	197,333
Contributed surplus	8	3,755	3,682
Accumulated other comprehensive income (loss)		(595)	(227)
Retained earnings (deficit)	2	(41,461)	(36,608)
Total shareholders' equity		159,032	164,180
Total liabilities and shareholders' equity		$ 381,990	$ 390,323
Subsequent events	14		

See accompanying notes to unaudited interim condensed consolidated financial statements.

On behalf of the Board of Directors:

"Erol Uzumeri" Director

"Richard P. Mavrinac" Director & Audit Committee Chair

ROOTS CORPORATION

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

For the 13 week periods ended May 1, 2021 and May 2, 2020

	Note	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Sales		$ 37,345	$ 29,949
Cost of goods sold		15,871	13,516
Gross profit		21,474	16,433
Selling, general and administrative expenses	8, 12, 13	25,879	27,806
Gain from deconsolidation of RTS USA Corp.	12	–	4,774
Loss before interest expense and income taxes recovery		(4,405)	(6,599)
Interest expense		2,278	3,747
Loss before income taxes recovery		(6,683)	(10,346)
Income taxes recovery	10	(1,745)	(2,561)
Net loss		$ (4,938)	$ (7,785)
Basic loss per share	7	$ (0.12)	$ (0.18)
Diluted loss per share	7	$ (0.12)	$ (0.18)

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION
Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(In thousands of Canadian dollars)
(Unaudited)

For the 13 week periods ended May 1, 2021 and May 2, 2020

	Note	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Net loss		$ (4,938)	$ (7,785)
Other comprehensive income (loss), net of taxes:			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	4, 9	(912)	3,499
Cost of hedging excluded from cash flow hedges	4, 9	(1)	(36)
Tax impact of cash flow hedges	4, 9	243	(985)
Total other comprehensive income (loss)		(670)	2,478
Total comprehensive loss		$ (5,608)	$ (5,307)

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

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

For the 13 week periods ended May 1, 2021 and May 2, 2020

May 1, 2021 (13 weeks)	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 30, 2021		$ 197,333	$ 3,682	$ (36,608)	$ (227)	$ 164,180
Adjustment on amendment of IFRS 16	2	–	–	85	–	85
Balance, January 31, 2021		197,333	3,682	(36,523)	(227)	164,265
Net loss		–	–	(4,938)	–	(4,938)
Net loss from change in fair value of cash flow hedges, net of income taxes	4, 9	–	–	–	(670)	(670)
Transfer of realized gain on cash flow hedges to inventories, net of income taxes		–	–	–	302	302
Share-based compensation	8	–	73	–	–	73
Balance, May 1, 2021		$ 197,333	$ 3,755	$ (41,461)	$ (595)	$ 159,032

May 2, 2020 (13 weeks)	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 1, 2020		$ 196,903	$ 3,407	$ (49,688)	$ (116)	$ 150,506
Net loss		–	–	(7,785)	–	(7,785)
Net gain from change in fair value of cash flow hedges, net of income taxes	4, 9	–	–	–	2,478	2,478
Transfer of realized loss on cash flow hedges to inventories, net of income taxes		–	–	–	(186)	(186)
Share-based compensation	8	–	152	–	–	152
Balance, May 2, 2020		$ 196,903	$ 3,559	$ (57,473)	$ 2,176	$ 145,165

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

For the 13 week periods ended May 1, 2021 and May 2, 2020

	Note	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Cash generated from (used in):			
Operating activities:			
Net loss		$ (4,938)	$ (7,785)
Items not involving cash:			
Depreciation and amortization		7,518	8,859
Share-based compensation expense	8	73	152
Gain from deconsolidation of RTS USA Corp.	12	–	(4,774)
Unrealized loss on de-designated forward contracts	4	–	(318)
Rent concessions related to practical expedient	2	(180)	–
Interest expense		2,278	3,747
Income taxes recovery	10	(1,745)	(2,561)
Settlement of de-designated forward contracts	4	(105)	–
Interest paid		(670)	(1,378)
Payment of interest on lease liabilities		(1,430)	(2,201)
Taxes refunded (paid)		(594)	3,503
Change in non-cash operating working capital:			
Accounts receivable		(489)	837
Inventories		(92)	(2,443)
Prepaid expenses		116	3,093
Accounts payable and accrued liabilities		(8,459)	4,549
Deferred revenue		(312)	(624)
		(9,029)	2,656
Financing activities:			
Issuance of long-term debt	5	10,500	14,000
Long-term debt financing costs	5	–	(146)
Repayment of long-term debt	5	(1,246)	(1,246)
Payment of principal on lease liabilities, net of tenant allowance		(4,613)	(2,452)
		4,641	10,156
Investing activities:			
Additions to fixed assets		(695)	(1,013)
Deconsolidation of RTS USA Corp.	12	–	(541)
		(695)	(1,554)
Increase (decrease) in cash		(5,083)	11,258
Cash and bank indebtedness, beginning of period		9,166	(6,277)
Cash and bank indebtedness, end of period		$ 4,083	$ 4,981

See accompanying notes to unaudited interim condensed consolidated financial statements.

1. Nature of operations and basis of presentation

Nature of operations

Established in 1973, Roots is a premium outdoor lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products designed for life's everyday adventures, including women's and men's apparel, leather goods, footwear, accessories, and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As at May 1, 2021, we had 111 corporate retail stores in Canada, two corporate retail stores in the United States, more than 100 partner-operated stores in Asia, and a global eCommerce platform, roots.com. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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

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

The Company experiences seasonal fluctuations in the financial results of its retail business, as a meaningful portion of its sales and earnings occur in the third and fourth fiscal quarters. The Company's working capital requirements generally increase in the periods preceding these peak periods, and it is not uncommon for net income (loss) before interest expense, income taxes expense (recovery) and depreciation and amortization ("EBITDA") to be negative in the first two fiscal quarters.

Basis of presentation

(a) Statement of compliance:

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and the accounting policies described in the Company's audited consolidated financial statements as at and for the 52 week period ended January 30, 2021 (the "annual financial statements"), except for the new standards adopted during the 13 week period ended May 1, 2021, as described below. They do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). However, select explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the annual financial statements.

These interim financial statements were authorized for issue by the Company's Board of Directors on June 10, 2021.

(b) Basis of measurement:

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

(c) COVID-19:

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

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

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

- Substantially reduced selling, general and administrative costs, capital expenditures and discretionary spending across all areas of the business;
- Realized personnel cost savings related to temporary layoffs as a result of store closures, and specific to Q1 2020, there were temporary reductions in compensation to the Board and head office employees, hiring and salary freezes, and the elimination of 2019 bonuses;
- Reduced and adjusted forward inventory purchases;

- Worked closely with partners and suppliers, as well as service and logistics providers, to identify further areas of cost reduction and/or payment deferral;

- Worked with landlords to abate or defer a significant portion of corporate retail store rent during the store shut down and/or subsequent period; and

- Evaluated, qualified and applied for applicable government relief programs, including the Canada Emergency Wage Subsidy ("CEWS") program and the Canada Emergency Rent Subsidy ("CERS") program. See Note 13.

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

(d) Use of estimates and judgements:

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

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

2. Significant accounting policies

The significant accounting policies as disclosed in the annual financial statements for the year ended January 30, 2021 have been applied consistently in the preparation of these interim financial statements, except as described below.

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

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

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

For the 13 week periods ended May 1, 2021 and May 2, 2020, the Company recognized $180 and $nil of base rent concessions, respectively, which qualified for the practical expedient and were recorded as a reduction to selling, general and administrative expenses. In addition, for the 13 week periods ended May 1, 2021 and May 2, 2020, the Company recorded $4 and $32, respectively, of rent concessions that were either not eligible for the practical expedient or were variable lease payments excluded from the scope of IFRS 16, Leases.

(b) New standards and interpretations not yet adopted:

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

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

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

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

Amendments to IAS 1 and IFRS Practice Statement 2, Making Material Judgements ("IFRS Practice Statement 2")

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

Amendments to IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies which fees should be included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is currently assessing the potential impact of these amendments.

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

3. Operating segments

The Company has two reportable operating segments:

(a) The "Direct-to-Consumer" segment comprises sales through corporate retail stores and eCommerce; and

(b) The "Partners and Other" segment consists primarily of the wholesale of Roots-branded products to our international operating partner and the royalties earned on the retail sales of Roots-branded products by our partner. The Partners and Other segment also includes royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

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

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

			May 1, 2021 (13 weeks)			May 2, 2020 (13 weeks)
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	$ 31,418	$ 5,927	$ 37,345	$ 24,622	$ 5,327	$ 29,949
Cost of goods sold	12,199	3,672	15,871	10,353	3,163	13,516
Gross profit	19,219	2,255	21,474	14,269	2,164	16,433
Selling, general and administrative expenses(1)			25,879			27,806
Gain on deconsolidation of RTS USA Corp.(1)			–			4,774
Loss before interest expense and income taxes recovery			(4,405)			(6,599)
Interest expense(1)			2,278			3,747
Loss before income taxes recovery			$ (6,683)			$ (10,346)

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

4. Financial instruments

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

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

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

There were no transfers between levels of the fair value hierarchy for the 13 week periods ended May 1, 2021 and May 2, 2020.

The Company enters into forward contracts from time to time to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at May 1, 2021, the Company had outstanding forward contracts to buy US$30,065 (January 30, 2021 – US$27,260) at an average forward rate of 1.26 (January 30, 2021 – 1.29). The forward contracts have maturity dates between May 3, 2021 and April 4, 2022.

For the 13 week periods ended May 1, 2021 and May 2, 2020, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a loss of $(912) (net of tax – $(671)) and a gain of $3,499 (net of tax – $2,567), respectively, which were recorded in other comprehensive income (loss).

As of May 1, 2021 and May 2, 2020 there were $nil and $3,940 future U.S. dollar denominated purchases that were no longer expected to occur as a result of the Company's efforts to reduce forward inventory purchases in response to COVID-19 (see also Note 1(c)). As a result, for the 13 week periods ended May 1, 2021 and May 2, 2020 the Company no longer designated these forward contracts for hedge accounting and reclassified the accumulated unrealized gain of $nil and $318 (net of tax – $233) associated with these forward contracts from other comprehensive income (loss) to profit or loss. As of May 1, 2021 these de-designated forward contracts were settled.

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

5. Long-term debt

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

On March 27, 2020, the Company amended the Credit Facilities to adjust certain definitions and limits of certain financial covenants to better reflect the initiatives and seasonality of the business. As of May 2, 2020 the Company incurred $146 of costs associated with the amendment, which were recorded as debt financing costs within long-term debt and will be recognized in interest expense over the remaining term of the loan. The $75,000 Revolving Credit Facility limit less the aggregate swing line loan of $10,000, and the September 6, 2022 maturity date for the Credit Facilities, were not changed at that time. As of May 1, 2021, $10,500 of the Revolving Credit Facility has been drawn (January 30, 2021 - $nil).

On May 28, 2021, the Company amended its Credit Agreement to extend the original maturity date of September 6, 2022 to September 6, 2024. See Note 14 – Subsequent events for additional details on the amendment.

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

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

The following table reconciles the changes in cash flows from financing activities for long-term debt for the 13 week periods ended May 1, 2021 and May 2, 2020:

	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Long-term debt, beginning of period	$ 71,084	$ 89,512
Long-term debt repayments of Term Credit Facility	(1,246)	(1,246)
Long-term debt financing costs	–	(146)
Long-term debt proceeds from Revolving Credit Facility	10,500	14,000
Total cash flow from long-term debt financing activities	9,254	12,608
Amortization of long-term debt financing costs	178	168
Total non-cash long-term debt activity	178	168
Total long-term debt, end of period	$ 80,516	$ 102,288

Recorded in the interim condensed consolidated statement of financial position as follows:

Current portion of long-term debt	$ 4,984	$ 4,984
Long-term portion of long-term debt	75,532	97,304
	$ 80,516	$ 102,288

6. Share capital

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

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

There were no dividends or distributions declared during the 13 week periods ended May 1, 2021 and May 2, 2020.

There were no changes to the Company's share capital for the 13 week periods ended May 1, 2021 and May 2, 2020.

As at May 1, 2021, there were 42,198,082 Shares (January 30, 2021 – 42,198,082) and no preferred shares issued and outstanding (January 30, 2021 – nil). All issued Shares are fully paid.

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

7. Earnings (loss) per Share

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

	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Weighted average Shares outstanding	42,198,082	42,124,451
Impact of share-based compensation	–	–
Diluted weighted average Shares outstanding	42,198,082	42,124,451

	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Net loss	$ (4,938)	$ (7,785)
Basic and diluted loss per Share	$ (0.12)	$ (0.18)

For the 13 week periods ended May 1, 2021 and May 2, 2020, 2,723,198 and 1,211,185 stock options, respectively, were not included in the calculation of diluted EPS as they were anti-dilutive.

For the 13 week periods ended May 1, 2021 and May 2, 2020, 80,398 and 172,935 restricted share units ("RSUs"), respectively, were not included in the calculation of basic or diluted EPS as they were anti-dilutive.

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

8. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy up to 6,708,806 Shares. As at May 1, 2021, 2,723,198 stock options and 80,398 RSUs were granted and outstanding.

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

For the 13 week period ended May 1, 2021	Legacy Equity Incentive Plan		Legacy Employee Option Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	–	$ –	374,828	$ 6.26	1,650,480	$ 2.57	2,025,308	$ 3.26
Granted	–	–	–	–	859,500	3.62	859,500	3.62
Forfeited	–	–	(32,128)	6.26	(129,482)	2.88	(161,610)	3.55
Outstanding options, end of period	–	$ –	342,700	$ 6.26	2,380,498	$ 2.94	2,723,198	$ 3.35
Exercisable options, end of period	–	$ –	342,700	$ 6.26	308,748	$ 5.99	651,448	$ 6.13

For the 13 week period ended May 2, 2020	Legacy Equity Incentive Plan		Legacy Employee Option Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	220,931	$ 4.67	444,439	$ 6.26	533,367	$ 6.16	1,198,737	$ 5.92
Granted	–	–	–	–	50,000	1.13	50,000	1.13
Forfeited	–	–	(12,495)	6.26	(25,057)	6.38	(37,552)	6.34
Outstanding options, end of period	220,931	$ 4.67	431,944	$ 6.26	558,310	$ 5.70	1,211,185	$ 5.71
Exercisable options, end of period	220,931	$ 4.67	296,300	$ 6.26	212,645	$ 7.13	729,876	$ 6.03

The fair value of stock options granted during the 13 week period ended May 1, 2021 was $1,409 (13 week period ended May 4, 2020 – $23).

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

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

	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Expected volatility	46.0% – 48.0%	41.0% – 43.0%
Share price at grant date	$3.62	$1.13
Exercise price	$3.62	$1.13
Risk-free interest rate	1.02% – 1.15%	0.38% – 0.39%
Expected term	5.5 years – 6.5 years	5.5 years – 6.5 years
Fair value per option	$1.60 – $1.67	$0.44 – $0.46

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

The following is a summary of the Company’s RSU and deferred share unit (“DSU”) activity:

For the 13 week period ended May 1, 2021	Legacy Equity Incentive Plan	Omnibus Plan	DSU Plan	Total	
	Number of RSUs	Number of RSUs	Number of DSUs	Number of RSUs	Number of DSUs
Units, beginning of period	15,985	77,578	419,670	93,563	419,670
Granted	–	–	56,866	–	56,866
Forfeited	–	(13,165)	–	(13,165)	–
Units, end of period	15,985	64,413	476,536	80,398	476,536

For the 13 week period ended May 2, 2020	Legacy Equity Incentive Plan	Omnibus Plan	DSU Plan	Total	
	Number of RSUs	Number of RSUs	Number of DSUs	Number of RSUs	Number of DSUs
Units, beginning of period	15,985	167,795	176,153	183,780	176,153
Granted	–	–	103,817	–	103,817
Forfeited	–	(10,845)	–	(10,845)	–
Units, end of period	15,985	156,950	279,970	172,935	279,970

The fair value of RSUs granted during the 13 week period ended May 1, 2021 was $nil (13 week period ended May 2, 2020 – $nil). There were 35,553 RSUs vested as at May 1, 2021 (13 week period ended May 2, 2020 – 90,194). The fair value of DSUs granted during the 13 week period ended May 1, 2021 was $205 (13 week period ended May 2, 2020 – $117).

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

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

	May 1, 2021 (13 weeks)	May 2, 2020 (13 weeks)
Legacy Equity Incentive Plan	$ –	$ 2
Legacy Employee Option Plan	–	1
Omnibus Plan	73	149
Total share-based compensation expense	$ 73	$ 152

9. Financial risk management

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

(a) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company prepares cash flow forecasts to ensure it has sufficient funds through operations and access to debt facilities to meet its financial obligations. The Company maintains the Credit Facilities, as described in Note 5, allowing it to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving financial forecasts. Market conditions are difficult to predict and there is no guarantee that the Company will achieve its forecasts. In the event of non-compliance, the Company's lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants. The Company will continue to carefully monitor its compliance with its covenants and seek waivers if such a need arises.

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

The contractual maturities of the Company's current and long-term financial liabilities as at May 1, 2021, excluding interest payments, are as follows:

				Remaining to maturity		
	Carrying amount	Contractual cash flows	Under 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Bank indebtedness	$ 495	$ 495	$ –	$ 495	$ –	$ –
Accounts payable and accrued liabilities	17,391	17,391	17,391	–	–	–
Long-term debt	80,516	81,486	4,984	76,502		–
Lease liabilities	98,889	116,985	23,728	42,572	28,121	22,564
	$ 197,291	$ 216,357	$ 46,103	$ 119,569	$ 28,121	$ 22,564

(b) Currency risk:

The Company is exposed to foreign exchange risk on foreign currency denominated financial assets and liabilities. A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed pre-tax net income for the period ended May 1, 2021 by $418 (13 week period ended May 2, 2020 – $447), as a result of the revaluation on these financial assets and liabilities.

The Company purchases a significant amount of its merchandise in U.S. dollars and enters into forward contracts to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The Company has performed a sensitivity analysis on its forward contracts (designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income (loss). A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables remain constant, would have changed other comprehensive income for the 13 week period ended May 1, 2021 by $1,487 (13 week period ended May 2, 2020 – $3,017), as a result of the revaluation on the Company's forward contracts.

(c) Interest rate risk:

Market fluctuations in interest rates impact the Company's earnings with respect to cash borrowings under the Credit Facilities. A one percentage point change in the applicable interest rate would have changed pre-tax net income for the 13 week period ended May 1, 2021 by $192 (13 week period ended May 2, 2020 – $246).

(d) Credit risk:

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

As at May 1, 2021, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Loan receivable	$	608
Lease receivable		1,103
Accounts receivable, excluding allowance for doubtful accounts		7,662
	$	9,373

(e) Capital management:

The Company manages its capital and capital structure with the objective of ensuring that sufficient liquidity is available to support its financial obligations and to execute its strategic plans. The Company considers 12-month EBITDA as a measure of its ability to service its debt and meet other financial obligations as they become due.

The Company has financial and non-financial covenants under the Credit Facilities which allow for certain adjustments to EBITDA ("Adjusted EBITDA") for purposes of compliance with those covenants. The key financial covenant includes a consolidated debt to Adjusted EBITDA ratio, a total debt to Adjusted EBITDA ratio, and a fixed charge coverage ratio. As at May 1, 2021, the Company was in compliance with its covenants under the Credit Facilities.

10. Income taxes recovery

Income taxes recovery for the 13 week period ended May 1, 2021 was $1,745 (13 week period ended May 2, 2020 – $2,561), resulting in an effective income taxes recovery rate for the 13 week period ended May 1, 2021 of 26.1% (13 week period ended May 2, 2020 – 24.8%). The increase in the effective tax recovery rate for the 13 week period ended May 1, 2021 as compared to the 13 week period ended May 2, 2020 was primarily attributable to the non-recurring impacts relating to deconsolidation of RTS USA Corp. that occurred on April 29, 2020 (See Note 12).

11. Related party transactions

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

The Company leases the building for its leather factory, from a company that is under common control of the Founders. For the 13 week periods ended May 1, 2021 and May 2, 2020, the rent expense that relates to the lease of this property was $71 and $47, respectively, which were recorded in selling, general and administrative expenses.

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

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

12. Deconsolidation of RTS USA Corp.

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

Under a Chapter 7 filing, control of RTS USA Corp. no longer rests with the Company, but rather with the court-appointed trustee in charge of administering the case. Accordingly, effective April 29, 2020, the Company no longer consolidates this wholly-owned subsidiary and has deconsolidated the assets and liabilities with respect to this subsidiary resulting in the difference being recorded as a net gain of $4,774 in the statement of net income (loss) for the 13 week period ended May 2, 2020. Assets and liabilities related to the deconsolidation of RTS USA Corp. were as follows:

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

During the 13 week periods ended May 1, 2021 and May 2, 2020, the Company has incurred $nil and $1,521, respectively, of costs associated with the Chapter 7 filing, recorded in selling, general and administrative expenses. The costs were primarily related to professional service fees and other costs incurred in relation to the filing.

13. Government grants

In response to the negative economic impact of COVID-19, the Government of Canada announced the CEWS program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as result of COVID-19. This subsidy is retroactive to March 15, 2020 and is currently scheduled to end September 25, 2021. The qualification and application of the CEWS is being assessed over multiple four-week application periods and is based on a rate determined by year-over-year revenue declines.

The Company has determined that it has qualified for this subsidy from the March 15, 2020 effective date through May 1, 2021 and has, accordingly, applied for, and for certain periods received, the CEWS. The Company also intends to apply for the CEWS in subsequent application periods, subject to continuing to meet the applicable qualification criteria.

For the 13 week periods ended May 1, 2021 and May 2, 2020, the Company has recognized $2,051 and $1,467 of CEWS, respectively, and has recorded it as a reduction to the eligible remuneration expense incurred by the Company during this period. As of May 2, 2021, the Company has received $338 of CEWS and expects to receive the remaining recognized subsidy in the following fiscal quarter.

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

The Company has determined that it has qualified for this subsidy from the September 27, 2020 effective date through May 1, 2021 and has, accordingly, applied for the CERS, and for certain periods received, the CERS. The Company also intends to apply for the CERS in subsequent application periods, subject to continuing to meet the applicable qualification criteria.

For the 13 week periods ended May 1, 2021 and May 2, 2020, the Company has recognized $840 and $nil of CERS, respectively, and has recorded it as other income and against certain property costs within selling, general and administrative expenses. As of May 1, 2021, the Company expects to receive the recognized subsidy in the following fiscal quarter.

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

The following table provides the impacts of the recognized CEWS and CERS within the Company's consolidated financial statements for the 13 week periods ended May 1, 2021 and May 2, 2020:

	May 1, 2021 (13 weeks)			May 2, 2020 (13 weeks)		
	CEWS	CERS	Total	CEWS	CERS	Total
Selling, general and administrative expenses	$ 1,673	$ 840	$ 2,513	$ 1,287	$ –	$ 1,287
Cost of goods sold	227	–	227	171	–	171
Capitalized in inventories	151	–	151	9	–	9
	$ 2,051	$ 840	$ 2,891	$ 1,467	$ –	$ 1,467

14. Subsequent events

On May 28, 2021, the Company amended its Credit Agreement to extend the original maturity date of September 6, 2022 to September 6, 2024. In addition, the amendment adjusted certain definitions, covenant limits, and reduced the $75,000 Revolver Credit Facility that includes the swing loan of $10,000 to $60,000. The costs incurred by the Company associated with the amendment 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.

Subsequent to quarter end the Company reopened its two stores in Québec in early May and its four Nova Scotia stores in early June. In addition, the Government of Ontario announced that non-essential retailers will be able to open street-front locations in Ontario on June 11, 2021 at 15% capacity. As a result, the Company will be reopening 26 of 62 closed Ontario locations as of June 11, 2021.