Fiscal Year 2022 Report

52-Week period ended January 28, 2023

ROOTS CORPORATION

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

(Fiscal Year Ended January 28, 2023)

The following Management's Discussion and Analysis ("**MD&A**") dated April 4, 2023 is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Roots Corporation (together with its consolidated subsidiaries, referred to herein as "**Roots**", the "**Company**", "**us**", "**we**" or "**our**"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial results for the fourth quarter and the fiscal year ended January 28, 2023. This MD&A should be read in conjunction with our audited consolidated financial statements for the fiscal year ended January 28, 2023, 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 2022**" are to our fiscal quarter for the 13-week period ended January 28, 2023, and all references to "**Q4 2021**" are to our fiscal quarter for the 13-week period ended January 29, 2022, and all references to "**Q4 2020**" are to our fiscal quarter for the 13-week period ended January 30, 2021. All references in this MD&A to "**F2022**" are to the 52-week fiscal year ended January 28, 2023, all references to "**F2021**" are to the 52-week fiscal year ended January 29, 2022, and all references to "**F2020**" are to the 52-week fiscal year ended January 30, 2021.

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 4, 2023.

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

CAUTIONARY NOTE REGARDING NON-IFRS MEASURES AND INDUSTRY METRICS

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

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

"**Adjusted DTC Gross Profit**" is a non-IFRS measure and is defined as gross profit in our direct-to-consumer ("**DTC**") segment, adjusted for the impact of non-cash provisions on inventory that are no longer aligned with our strategic product direction and other non-cash items and/or items that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods difficult. The IFRS measurement most directly comparable to Adjusted DTC Gross Profit is gross profit for the DTC segment.

"**Adjusted DTC Gross Margin**" is a non-IFRS ratio and is defined as Adjusted DTC Gross Profit, divided by sales in our DTC segment.

"**EBITDA**" is a non-IFRS measure and is defined as net income before interest expense, income taxes expense and depreciation and amortization. The IFRS measurement most directly comparable to EBITDA is net income.

"**Adjusted EBITDA**" is a non-IFRS measure and is defined as EBITDA, adjusted for the impact of certain items, including share-based compensation expense, asset impairment expense, purchase price accounting adjustments, executive recruitment and severance costs, legal costs outside the normal course of operations, provisions on inventory no longer aligned with our strategic product direction, and other non-cash items and/or items that are non-recurring, infrequent, or unusual in nature and would make comparisons of underlying financial performance between periods difficult. Adjusted EBITDA also excludes the impact of IFRS 16 – *Leases* ("**IFRS 16**") and includes rent expense, a significant expense for our corporate retail stores. 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. The IFRS measurement most directly comparable to Adjusted EBITDA is net income.

"**Adjusted Net Income**" is a non-IFRS measure and is defined as net income, adjusted for the impact of certain items, including share-based compensation expense, asset impairment expense, purchase price accounting adjustments, executive recruitment and severance costs, legal costs outside the normal course of operations, provisions on inventory no longer aligned with our strategic product direction, and other non-cash items and/or items 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. Adjusted Net Income also excludes the impact of IFRS 16 and includes rent expense, a significant expense for our corporate retail stores. We believe that Adjusted Net Income is useful, to both management and investors, in assessing the underlying performance of our ongoing operations. The IFRS measurement most directly comparable to Adjusted Net Income is net income.

"**Adjusted Net Income per Share**" is a non-IFRS ratio and is defined as Adjusted Net Income, divided by the weighted average Shares (as defined herein) outstanding during the periods presented. We believe that Adjusted Net Income per Share is useful, to both management and investors, in assessing the underlying performance of our ongoing operations, on a per share basis.

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

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

Commencing in the first quarter of F2020 ("**Q1 2020**"), the Company's DTC segment was significantly impacted by COVID-19. Due to the ongoing negative impacts that COVID-19 has had on the apparel retail operating environment, including periods of temporary store closures, phased re-openings and retail store operating limitations, the Company does not believe that Comparable Sales Growth (Decline) is a representative metric of performance in the affected periods. Accordingly, this MD&A does not include a discussion of the Company's

Comparable Sales Growth (Decline). See "Key Business Developments – Current Operating Environment".

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 is 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 global lifestyle brand. Starting from a small cabin in northern Canada, Roots has become a global brand, which as of January 28, 2023, operated 107 corporate retail stores and 12 temporary pop-up locations in Canada, two corporate retail stores in the United States, and an eCommerce platform, roots.com. We have more than 100 partner-operated stores in Asia, and we also operate a dedicated Roots-branded storefront on Tmall.com in China. We design, market, and sell a broad selection of products in different departments, including women's, men's, children's, and gender-free apparel, leather goods, footwear, and accessories. Our products are built with uncompromising comfort, quality, and style that allows you to feel at home with nature. We offer products designed to meet life's everyday adventures and provide you with the versatility to live your life to the fullest. We also wholesale through business-to-business channels and license the brand to a select group of licensees selling products to major retailers.

On October 14, 2015, Searchlight Capital Partners, L.P. ("**Searchlight**") incorporated Roots Corporation under the laws of Canada and its subsidiary, Roots USA Corporation, under the laws of the State of Delaware. Pursuant to a purchase and sale agreement dated October 21, 2015, Roots and its subsidiaries acquired substantially all of the assets of Roots Canada Ltd., former wholly-owned subsidiary Roots U.S.A., Inc., 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**"). Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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

KEY BUSINESS DEVELOPMENTS

Current Operating Environment

The Company has been impacted by higher inflation in the markets in which we operate, including increased cost of inventory, third-party services, and labour costs. Central banks have also raised interest rates, which, along with the higher inflation rates, may weaken consumer sentiment, decrease discretionary spending levels, increase consumer price sensitivity, and negatively impact sales. Furthermore, as a result of increased inventory levels industry-wide, the Company is facing a more competitive promotional environment, which may further increase consumer price sensitivity.

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 ongoing recommendations and restrictions imposed by government authorities to help curb the spread of COVID-19, has significantly impacted our operations and financial performance.

While our corporate retail stores remained open and traffic improved during F2022, the financial results of F2021 and F2022 were negatively impacted by supply chain disruptions and economic conditions stemming from the pandemic. As part of restrictions imposed by government authorities, our corporate retail stores were closed for 20% of F2021.

Global Supply Chain

During F2021 and F2022, we navigated through global supply chain disruptions, which increased overseas and inland shipping times and increased the cost of freight. During that period, we implemented many initiatives, including the following:

- Worked with suppliers to prioritize production of key product collections;
- Utilized air freight and premium-rate ocean freight to reduce lead times for key programs;
- Leveraged existing freight contracts to secure freight capacity and reduce freight cost volatility; and
- Strategically managed on-hand inventory and adjusted promotional tactics.

During F2022, we incurred $1,623 (F2021 – $4,029) of air freight costs to prioritize the on-time delivery of key product collections. Air freight costs are capitalized into inventory and subsequently recorded in cost of sales as the corresponding goods are sold. During Q4 2022 and F2022, we recorded $634 and $2,530, respectively, of air freight costs in cost of sales (Q4 2021 and F2021 – $2,631 and $2,922, respectively). At the end of F2022, there remains $200 of capitalized air freight costs that we expect to record in cost of sales, as the goods sell through in the following year.
We have seen preliminary signs of recovery in the freight market, as shipping times shorten towards pre-pandemic levels, the need for air freight reduces, and market ocean freight rates reduce from peak levels seen in late F2021 and F2022.

Real Estate

The following table summarizes the change in our corporate retail store count for the periods indicated.

	Q4 2022	Q4 2021	F2022	F2021
Number of stores, beginning of period	110	111	109	113
New stores	–	–	1	–
Permanently closed stores	(1)	(2)	(1)	(4)
Number of stores, end of period	**109**	**109**	**109**	**109**
Stores renovated or relocated	1	–	6	2
Temporary pop-up locations, in addition to above store count	12	9	12	9

We also have more than 100 partner-operated stores in Asia.

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 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 and a growing digital presence in China. 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 strengthening 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 profitable sales in our DTC segment and to grow our omni-channel footprint. This includes enhancing our eCommerce capabilities and optimizing our corporate retail store footprint. Our ability to successfully execute our omni-channel strategy is an important driver of our longer-term growth.

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

Retail store distribution and eCommerce fulfillment are both completed at one single Roots-operated facility. Being able to fulfill centrally enables us to more effectively scale and execute our omni-channel strategy. Conversely, any failure of our distribution centre to meet the demands of the Company, or to keep pace with our growth, could have a material adverse effect on our business and financial results.

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

We continue to execute our broader merchandising strategy of bringing better products and assortments to our diverse and global consumer base. Through our more formalized and analytical 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. We enter into hedging arrangements to mitigate a portion of the risks associated with fluctuations in the U.S. dollar relative to the Canadian dollar. See "Financial Instruments" for a further discussion of our hedging arrangements.

Seasonality

We experience seasonal fluctuations in our retail business, as we generate a meaningful portion of our sales and earnings in our third and fourth fiscal quarters. Our working capital requirements generally increase in the periods preceding these peak periods, and it is not uncommon for our EBITDA to be negative in the first two fiscal quarters.

The average portion of our annual sales generated during each quarter of a fiscal year over the last three completed fiscal years is outlined in the following table:

First fiscal quarter	14%
Second fiscal quarter	14%
Third fiscal quarter	27%
Fourth fiscal quarter	45%
	100%

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, rainfall, 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. Severe weather may also negatively impact our supply chain and result in delays in receiving inventory and fulfilling orders. Furthermore, we are subject to risks relating to unseasonable weather patterns, such as warmer temperatures in the fall and winter seasons and cooler temperatures in the spring and summer seasons, which could cause our inventory to be incompatible with prevailing weather conditions and could diminish demand for seasonal merchandise.

Consumer Trends

Our success largely depends on our ability to anticipate and respond to shifts in consumer trends, demands and preferences in a timely manner. 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.

Global Geopolitical and Economic Environment

Our business is also impacted by changes in the global geopolitical and economic landscapes that are beyond our control. Changes in geopolitical conditions could cause a disruption in our ability to operate within the affected markets. Worsening of economic conditions within the markets in which we operate, including increases in inflation rates, unemployment rates, interest rates, and consumer debt could limit the disposable income available to our customers. Volatility and uncertainty in both the geopolitical and economic landscapes could also reduce consumer confidence and reduce discretionary spending levels of consumers. We continue to closely monitor geopolitical and global economic developments and will adjust our operations, where possible, to minimize the impact to our business. See “Key Business Developments – Current Operating Environment”.

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. Our Partners and Other segment also includes the Company's sales from its Roots-branded storefront on business-to-consumer marketplace website Tmall.com in China, 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.

Our DTC and Partners and Other segments contributed 85.0% and 15.0% of our sales, respectively, in F2022 (F2021 – 86.1% and 13.9% 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 to the most directly comparable IFRS measure.

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

CAD $000s (except per Share data)	**Q4 2022**	**Q4 2021**	**F2022**	**F2021**
Statement of Net Income Data:				
Sales	111,461	121,294	272,116	273,834
Gross profit	62,984	72,352	156,976	162,857
Gross margin	56.5%	59.7%	57.7%	59.5%
Selling, general and administrative expenses	42,864	45,688	138,625	122,850
Net income	12,980	18,111	6,693	22,763
Basic earnings per Share	$0.31	$0.43	$0.16	$0.54
Diluted earnings per Share	$0.31	$0.42	$0.16	$0.53
Non-IFRS Measures and Other Performance Measures:				
Corporate retail stores, end of period	109	109	109	109
Adjusted DTC Gross Profit (1)	58,825	68,266	141,453	148,115
Adjusted DTC Gross Margin (1)	59.7%	61.7%	61.2%	62.8%
EBITDA (1)	27,756	34,055	47,675	70,001
Adjusted EBITDA (1)	23,524	30,621	26,967	50,139
Adjusted Net Income (1)	14,501	20,258	9,775	27,473
Adjusted Net Income per Share (1)	$0.35	$0.48	$0.23	$0.65

Note:

(1) Adjusted DTC Gross Profit, Adjusted DTC Gross Margin, EBITDA, 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 and "Reconciliation of Non-IFRS Measures" for reconciliation of these measures.

Impact of Government Subsidies and Temporary Occupancy Cost Abatements

From F2020 through F2021, we benefitted from government subsidies, including the Canada Emergency Wage Subsidy ("**CEWS**") program and the Canada Emergency Rent Subsidy ("**CERS**") program, as well as temporary occupancy cost abatements negotiated with our landlords to address the negative economic impacts of COVID-19. As government restrictions lifted and the markets in which we operate began to recover, the amount of government subsidies and occupancy cost abatements received decreased and were discontinued for F2022. Nominal benefits amounts recorded in F2022 relate to government subsidies capitalized to inventory in F2021 and temporary occupancy cost abatements negotiated on lease payments that extended into F2022. The following table summarizes the quarterly impact of government subsidies and temporary occupancy cost abatements:

CAD $000s	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**
Government Subsidies and Temporary Occupancy Cost Abatements:								
CEWS reducing Cost of Goods Sold	$ –	$ 51	$ 252	$ 131	$ 127	$ 475	$ 1,182	$ 253
CEWS reducing (increasing) SG&A	–	–	–	–	(170)	656	2,614	1,673
CERS reducing SG&A	–	–	–	–	56	72	999	840
Temporary occupancy cost abatements reducing SG&A	–	–	19	3	264	1,833	1,673	265
Total pre-tax impact of government subsidies and temporary occupancy cost abatements on net income (loss)	**$ –**	**$ 51**	**$ 271**	**$ 134**	**$ 277**	**$ 3,036**	**$ 6,468**	**$ 3,031**

RECONCILIATION OF NON-IFRS MEASURES

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

CAD $000s	Q4 2022	Q4 2021	F2022	F2021
DTC gross profit	**57,848**	**67,801**	**140,476**	**147,650**
Add the impact of:				
COGS: Inventory provision (b)	977	465	977	465
Adjusted DTC Gross Profit	**58,825**	**68,266**	**141,453**	**148,115**

CAD $000s	Q4 2022	Q4 2021	F2022	F2021
Net income	**12,980**	**18,111**	**6,693**	**22,763**
Adjust for the impact of:				
Interest expense (a)	2,320	2,021	8,756	8,808
Income taxes expense (a)	4,820	6,532	2,902	8,436
Depreciation and amortization (a)	7,636	7,391	29,324	29,994
EBITDA	**27,756**	**34,055**	**47,675**	**70,001**
Adjust for the impact of:				
COGS: Inventory provision (b)	977	465	977	465
SG&A: Rent expense excluded from net income due to IFRS 16 (a)	(5,789)	(5,709)	(23,194)	(23,445)
SG&A: IFRS 16: Impairment of ROU assets (a)	79	305	79	305
SG&A: Purchase accounting adjustments (c)	(13)	4	(18)	70
SG&A: Stock option expense (d)	(29)	23	380	656
SG&A: Fixed asset impairment (e)	356	344	356	344
SG&A: Changes in key personnel (f)	130	924	125	1,161
SG&A: Non-recurring legal fees (g)	57	131	587	131
SG&A: Other non-recurring items (h)	–	79	–	451
Adjusted EBITDA [k]	**23,524**	**30,621**	**26,967**	**50,139**

CAD $000s	Q4 2022	Q4 2021	F2022	F2021
Net income	**12,980**	**18,111**	**6,693**	**22,763**
Adjust for the impact of IFRS 16:				
Rent expense excluded from net income (a)	(5,789)	(5,709)	(23,194)	(23,445)
Depreciation on ROU assets (a)	4,547	4,518	17,690	18,373
Impairment on ROU assets (a)	79	305	79	305
Interest on lease liabilities (a)	1,189	1,252	4,771	5,360
Deferred tax impact (a)	(7)	(97)	173	(157)
Total IFRS 16 impacts reversed	19	269	(481)	436
Adjust for the impact of:				
COGS: Inventory provision (b)	977	465	977	465
SG&A: Purchase accounting adjustments (c)	(13)	4	(18)	70
SG&A: Stock option expense (d)	(29)	23	380	656
SG&A: Fixed asset impairment (e)	356	344	356	344
SG&A: Changes in key personnel (f)	130	924	125	1,161
SG&A: Non-recurring legal fees (g)	57	131	587	131
SG&A: Other non-recurring items (h)	–	79	–	451
SG&A: Amortization of intangible assets acquired by Searchlight (i)	576	576	2,302	2,298
Total adjustments	2,054	2,546	4,709	5,576
Tax effect of adjustments	(552)	(668)	(1,146)	(1,302)
Adjusted Net Income [k]	**14,501**	**20,258**	**9,775**	**27,473**
Adjusted Net Income per Share [l]	**$0.35**	**$0.48**	**$0.23**	**$0.65**

Notes:

(a) The impact of IFRS 16 in Q4 2022 and Q4 2021 was: (i) a decrease to SG&A expenses of $1,163 and $886, respectively, which comprised the impact of depreciation and impairment on the right-of-use ("**ROU**") assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of $1,189 and $1,252, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of $(7) and $97, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. The impact of IFRS 16 in F2022 and F2021 was: (i) a decrease to SG&A expenses of $5,425 and $4,767, respectively, which comprised the impact of depreciation on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of $4,771 and $5,360, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of $173 and $157, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded.

(b) Represents the portion of non-cash inventory provision on items that no longer align with the Company's strategic product direction. In Q4 2022 and F2022, this provision primarily relates to specific footwear styles being phased out. In Q4 2021 and F2021, this provision relates to specific raw material that was no longer part of strategic product designs.

(c) As a result of the Acquisition, the Company 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.

(d) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Equity Incentive Plan.

(e) Represents a non-cash impairment charge (net of reversals) taken against certain fixed assets for stores where the recoverable amount is deemed to be below the carrying value.

(f) Represents expenses incurred in respect of the Company's efforts to recruit for vacancies in key management positions and severance costs associated with employee separations relating to such positions.

(g) Represents non-recurring legal costs that are outside the scope of normal operations.

(h) Represents one-time costs incurred that do not reflect the underlying profitability of the business, including start-up costs associated with the relaunch of the Roots eCommerce website in China.

(i) 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.

(j) Adjusted EBITDA excludes the impact of IFRS 16. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2022 and F2022, Adjusted EBITDA would have been $29,247 and $50,100, respectively. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2021 and F2021, Adjusted EBITDA would have been $36,021 and $73,209, respectively.

(k) Adjusted Net Income excludes the impact of IFRS 16. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2022 and F2022, Adjusted Net Income would have been $14,363 and $10,140, respectively. If the impact of IFRS 16, net of impairments on the ROU assets, was included for Q4 2021 and F2021, Adjusted Net Income would have been $19,986 and $26,986, respectively.

(l) Adjusted Net Income per Share has been calculated based on the weighted average number of Shares outstanding during the period. The weighted average number of Shares during Q4 2022 and F2022 was 41,668,491 and 41,739,504, respectively. The weighted average number of Shares during Q4 2021 and F2021 as 42,218,446 and 42,221,249, respectively.

Selected Financial Results for Q4 2022 Compared to Q4 2021

- Total sales decreased by $9,833, or 8.1%, to $111,461 in Q4 2022, from $121,294 in Q4 2021.
    - DTC sales decreased by $12,072, or 10.9%, to $98,533 in Q4 2022, from $110,605 in Q4 2021.
    - Partners and Other sales increased by $2,239, or 20.9%, to $12,928 in Q4 2022, from $10,689 in Q4 2021.
- Gross profit decreased by $9,368, or 12.9%, to $62,984 in Q4 2022, from $72,352 in Q4 2021.
    - DTC gross profit decreased by $9,953, or 14.7%, to $57,848 in Q4 2022, from $67,801 in Q4 2021, and as a percentage of sales ("**DTC gross margin**") decreased to 58.7% in Q4 2022, from 61.3% in Q4 2021.
    - Adjusted DTC Gross Profit decreased $9,441, or 13.8%, to $58,825 in Q4 2022, from $68,266 in Q4 2021, and Adjusted DTC Gross Margin decreased to 59.7% in Q4 2022, from 61.7% in Q4 2021.
- SG&A expenses decreased by $2,824 or 6.2%, to $42,864 in Q4 2022, from $45,688 in Q4 2021.
- Adjusted EBITDA(1) decreased by $7,097, or 23.2%, to $23,524 in Q4 2022, from $30,621 in Q4 2021.
- Net income decreased by $5,131, or 28.3%, to $12,980 in Q4 2022, from $18,111 in Q4 2021.
- Adjusted Net Income(1) decreased by $5,757, or 28.4%, to $14,501 in Q4 2022, from $20,258 in Q4 2021.
- Basic earnings per Share decreased to $0.31 in Q4 2022, from $0.43 in Q4 2021.
- Adjusted Net Income per Share(1) decreased to $0.35 in Q4 2022, from $0.48 in Q4 2021.

Selected Financial Results for F2022 Compared to F2021

- Total sales decreased by $1,718, or 0.6%, to $272,116 in F2022, from $273,834 in F2021.
    - DTC sales decreased by $4,607, or 2.0%, to $231,230 in F2022, from $235,837 in F2021.
    - Partners and Other sales increased by $2,889, or 7.6%, to $40,886 in F2022, from $37,997 in F2021.
- Gross profit decreased by $5,881, or 3.6%, to $156,976 in F2022, from $162,857 in F2021.

- DTC gross profit decreased by $7,174, or 4.9%, to $140,476 in F2022, from $147,650 in F2021, and DTC gross margin decreased to 60.8% in F2022, from 62.6% in F2021.
- Adjusted DTC Gross Profit decreased $6,662, or 4.5%, to $141,453 in F2022, from $148,115 in F2021, and Adjusted DTC Gross Margin decreased to 61.2% in F2022, from 62.8% in F2021

- SG&A expenses increased by $15,775, or 12.8%, to $138,625 in F2022, from $122,850 in F2021.
- Adjusted EBITDA(1) decreased by $23,172, or 46.2%, to $26,967 in F2022, from $50,139 in F2021. Adjusted EBITDA was 9.9% of sales in F2022, decreasing from 18.3% of sales in F2021.
- Net income decreased by $16,070, or 70.6%, to $6,693 in F2022, from $22,763 in F2021.
- Adjusted Net Income(1) decreased by $17,698, or 64.4%, to $9,775 in F2022, from $27,473 in F2021. Adjusted Net Income was 3.6% of sales in F2022, decreasing from 10.0% of sales in F2021.
- Basic earnings per Share decreased to $0.16 in F2022, from $0.54 in F2021.
- Adjusted Net Income per Share(1) decreased to $0.23 in F2022 from $0.65 in F2021.

Note:

(1) 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 and "Reconciliation of Non-IFRS Measures" for reconciliation of these measures.

COMPONENTS OF OUR RESULTS OF OPERATIONS

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

Sales

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

Sales in our Partners and Other segment consist primarily of the wholesale of Roots-branded products to our international operating partner. The Partners and Other segment also includes the Company's sales from its Roots-branded storefront on business-to-consumer marketplace website Tmall.com in China, 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. Wholesale sales 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 by Roots or receipt by the customer. Contractually, our international partner and wholesale partners are unable to return goods purchased from us. Royalty sales are earned and recognized on an accrual basis in accordance with the various contractual agreements, at the later of (i) sales of licensed goods as reported by our international partner and other third-party licensees, and (ii) when all performance obligations pertaining to the royalty have been satisfied.

Gross Profit

Gross profit is sales less cost of goods sold. Cost of goods sold includes the cost of purchasing products from manufacturers, including direct purchase costs, freight costs, and duty and non-refundable taxes. For select leather products manufactured by us in-house, cost of goods sold includes the cost of manufacturing our products, including raw materials, direct labour and overhead, plus freight costs. Cost of goods sold also includes variable distribution centre costs incurred to prepare our inventory for sale. The CEWS recognized on behalf of our distribution centre and leather factory employee compensation has been recorded as an increase to gross profit.

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

Products purchased from our manufacturers are predominantly sourced in U.S. dollars which exposes our cost of goods sold to foreign currency fluctuations. The Company utilizes a hedging program to manage its foreign currency risk related to U.S. dollar inventory purchases. See “Financial Instruments”.

Selling, General and Administrative Expenses

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

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.

SG&A expenses 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.

Foreign exchange gains and losses, excluding changes in the fair value of foreign currency forward contracts 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. See “Financial Instruments”.

The CEWS recognized relating to our corporate retail store and head office employee cost has been recorded as a reduction to the related remuneration expenses within SG&A

expenses. The CERS recognized has been recorded as a reduction to certain property costs within SG&A expenses.

Interest Expense

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

Income Taxes

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

RESULTS OF OPERATIONS

Analysis of Results for Q4 2022 as compared to Q4 2021 and F2022 as compared to F2021

The following section provides an overview of our financial performance during Q4 2022 compared to Q4 2021 and during F2022 compared to F2021.

Sales

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

CAD $000s	**Q4 2022**	**Q4 2021**	**% Change**	**F2022**	**F2021**	**% Change**
DTC	98,533	110,605	(10.9%)	231,230	235,837	(2.0%)
Partners and Other	12,928	10,689	20.9%	40,886	37,997	7.6%
Total Sales	**111,461**	**121,294**	**(8.1%)**	**272,116**	**273,834**	**(0.6%)**

Total sales were $111,461 in Q4 2022 as compared to $121,294 in Q4 2021, representing a decrease of $9,833, or 8.1%.

DTC sales decreased $12,072, or 10.9%, in Q4 2022 as compared to Q4 2021. The year-over-year decrease in DTC sales was primarily driven by economic environment headwinds and an intensified promotional environment (see – "Key Business Developments – Current Operating Environment"). Sales in emerging collections launched in recent years drove positive year-over-year growth but did not offset the sales decline in select traditional fleece styles, which represents a larger portion of our business. The year-over-year decline in DTC sales was more pronounced towards the first half of the quarter, including during key Black Friday and Cyber Monday selling periods, and subsequently moderated towards the latter half of Q4 2022, which represented a smaller portion of total quarter DTC sales.

Sales in the Partners and Other segment increased by $2,239, or 20.9%, in Q4 2022 as compared to Q4 2021. The increase in sales includes the favourable impact of $420 in foreign exchange on U.S. dollar sales in Q4 2022, relative to Q4 2021. Excluding foreign exchange impacts, Q4 2022 would have increased $1,819, or 16.4%, as compared to Q4 2021. The year-over-year increase was primarily driven by higher sales to our international operating partner in Taiwan and an increase in the wholesale of Roots-branded product to select retail partners.

Total sales were $272,116 in F2022 as compared to $273,834 in F2021, representing a decrease of $1,718, or 0.6%.

F2022 sales in the DTC segment decreased by $4,607, or 2.0%, as compared to F2021. The year-over-year decrease in DTC sales was driven by economic environment headwinds and an intensified promotional environment (see – "Key Business Developments – Current Operating Environment"). Sales in major new franchises launched in recent years drove positive year-over-year growth but did not offset the sales decline in select traditional fleece styles during the second half of F2022, which represents a larger portion of our business. This was partially offset by growth in store sales during the first and second quarter of F2022, which experienced a positive year-over-year recovery in store traffic and was not impacted by COVID-19 related closures and restrictions.

Sales in the Partners and Other segment increased by $2,889, or 7.6%, during F2022 as compared to F2021. The increase in sales includes the favourable impact of $1,373 in foreign exchange on U.S. dollar sales in F2022, relative to F2021. Excluding foreign exchange impacts, F2022 would have increased $1,516, or 3.8%, as compared to F2021. The year-over-year increase in sales was driven by an increase in the wholesale of Roots-branded product to select retail partners and sales through Tmall.com in China.

Gross Profit

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

CAD $000s	Q4 2022	Q4 2021	% Change	F2022	F2021	% Change
DTC	57,848	67,801	(14.7%)	140,476	147,650	(4.9%)
Partners and Other	5,136	4,551	12.9%	16,500	15,207	8.5%
Total Gross Profit	**62,984**	**72,352**	**(12.9%)**	**156,976**	**162,857**	**(3.6%)**

Gross Margin	Q4 2022	Q4 2021	F2022	F2021
DTC	58.7%	61.3%	60.8%	62.6%
Partners and Other	39.7%	42.6%	40.4%	40.0%
Total Gross Margin	**56.5%**	**59.7%**	**57.7%**	**59.5%**

Gross profit was $62,984 in Q4 2022, as compared to $72,352 in Q4 2021, representing a decrease of $9,368, or 12.9%.

Gross profit in the DTC segment decreased $9,953, or 14.7%, in Q4 2022 as compared to Q4 2021. The decrease in gross profit was driven by decreased sales volumes and reduced gross margin on those sales. DTC gross margin was 58.7% in Q4 2022, as compared to 61.3% in Q4 2021. Excluding the impacts of higher inventory provisions taken in Q4 2022, DTC gross margin declined 180 bps year-over-year. This decline was primarily driven by higher product costs from the transition to sustainable materials and unfavourable foreign exchange on purchases, along with higher promotional activity. These factors were partially offset by 170 bps margin improvement from lower air freight costs incurred on holiday goods.

Gross profit in the Partners and Other segment increased by $585, or 12.9%, in Q4 2022 as compared to Q4 2021. The increase in gross profit in the Partners and Other segment was driven by increased wholesale sales of Roots-branded product to select retail partners and higher sales to our international operating partner in Taiwan.

Gross profit was $156,976 in F2022, as compared to $162,857 in F2021, representing a decrease of $5,881, or 3.6%.

During F2022, gross profit in the DTC segment decreased by $7,174, or 4.9%, as compared to F2021. The decrease in gross profit was driven by decreased sales volumes and reduced gross margin on those sales. DTC gross margin was 60.8% in F2022, as compared to 62.6% in F2021. Excluding the impacts of higher inventory provisions and lower CEWS benefits recorded in F2022, DTC gross margin declined 90 bps year-over-year. This decline was primarily driven by higher product costs from the transition to sustainable materials, higher promotional activity in the second half of the year, and 30 bps margin decline from higher freight rates, partially offset by favourable foreign exchange on purchases during the first three quarters of the year.

During F2022, gross profit in the Partners and Other segment increased by $1,293, or 8.5%, as compared to F2021. The increase in gross profit in the Partners and Other segment was driven by increased wholesale sales of Roots-branded product to select retail partners, higher sales through Tmall.com and the favourable impact of foreign exchange on U.S. dollar in F2022 as compared to F2021.

Selling, General and Administrative Expenses

SG&A expenses were $42,864 in Q4 2022 as compared to $45,688 in Q4 2021, representing a decrease of $2,824, or 6.2%. This decrease in SG&A expenses was primarily driven by reduced corporate payroll costs and lower variable selling costs, partially offset by higher store labour costs.

SG&A expenses were $138,625 during F2022 as compared to $122,850 in F2021, representing an increase of $15,775, or 12.8%. Excluding the year-over-year impacts of government subsidies and temporary occupancy-related abatements of $6,740 and $4,014, respectively, SG&A expenses increased by $5,021 in F2022, or 3.8%, in comparison to F2021. This increase in SG&A expenses was primarily driven by higher store operating costs associated with stores being fully open, higher store labour costs, and investments in talent and marketing.

Interest Expense

Interest expense was $2,320 in Q4 2022 as compared to $2,021 in Q4 2021, representing an increase of $299, or 14.8%. The increase in interest expense was primarily driven by an increase in the weighted average effective interest rate in comparison to Q4 2021, partially offset by reduced debt carried under the Credit Facilities (as defined below), and lower interest from reduced lease liabilities.

During F2022, interest expense was $8,756 as compared to $8,808 in F2021, representing a decrease of $52, or 0.6%. The decrease in interest expense was primarily related to lower debt carried under the Credit Facilities (as defined below), and lower interest from reduced lease liabilities, partially offset by an increase in the weighted average effective interest rate in comparison to F2021. See “Indebtedness”.

Income Taxes Expense

Income taxes expense was $4,820 in Q4 2022 as compared to $6,532 in Q4 2021, representing a decrease of $1,712. The effective income tax rates for Q4 2022 and Q4 2021 were 27.1% and 26.5%, respectively. During F2022, income taxes expense was $2,902 as compared to $8,436 in F2021, representing a decrease of $5,534. The effective income tax rates for F2022 and F2021 were 30.3% and 27.0%, respectively. The increase in the effective tax rate during Q4 2022 and F2022, as compared to Q4 2021 and F2021, respectively, was primarily attributed to higher non-deductible legal fees and share based compensation expense.

Net Income

Net income was $12,980 in Q4 2022 as compared to $18,111 in Q4 2021, representing a decrease of $5,131. During F2022, net income was $6,693 as compared to $22,763 in F2021, representing a decrease of $16,070. The decrease in net income was a result of the factors described above.

QUARTERLY FINANCIAL INFORMATION

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

CAD $000s (except per Share data) (Unaudited)	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**
Sales	**111,461**	**69,782**	**47,801**	**43,072**	**121,294**	**76,291**	**38,904**	**37,345**
Net Income (Loss)	**12,980**	**2,209**	**(3,235)**	**(5,261)**	**18,111**	**10,766**	**(1,176)**	**(4,938)**
Net Earnings (Loss) per Share:								
Basic earnings (loss) per Share. . .	$ 0.31	$ 0.05	$ (0.08)	$ (0.13)	$ 0.43	$ 0.25	$ (0.03)	$ (0.12)
Diluted earnings (loss) per Share .	$ 0.31	$ 0.05	$ (0.08)	$ (0.13)	$ 0.42	$ 0.25	$ (0.03)	$ (0.12)
Corporate retail stores, end of period	**109**	**110**	**109**	**109**	**109**	**111**	**111**	**113**
Temporary pop-up locations, in addition to above store count.	**12**	**13**	**12**	**9**	**9**	**10**	**11**	**6**

See “Result of Operations” for discussion on Q4 2022 results.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We principally use our funds for operating expenses, capital expenditures and debt service requirements. We believe that cash generated from operations, together with amounts available under our Credit Facilities, will be sufficient to meet our future operating expenses, capital expenditures and debt service requirements. In addition, these resources will enable us to comply with our financial covenants (see "Indebtedness"). We believe that our capital structure provides us with sufficient financial flexibility to pursue our future growth strategies. However, our ability to fund future operating expenses, capital expenditures and debt service requirements, and to comply with financial covenants, will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Key Business Developments – Current Operating Environment", "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 2022**	**Q4 2021**	**F2022**	**F2021**
Cash flows from operating activities	41,279	54,135	29,298	56,467
Cash flows used in financing activities	(10,213)	(25,622)	(25,190)	(27,064)
Cash flows used in investing activities	(1,676)	(1,167)	(6,348)	(4,408)
Change in cash during the period.	**29,390**	**27,346**	**(2,240)**	**24,995**

Analysis of Cash Flows for Q4 2022 and F2022 compared to Q4 2021 and F2021

Cash Flows from Operating Activities

For Q4 2022 and F2022, cash flows generated from operating activities totalled $41,279 and $29,298, respectively, compared to $54,135 and $56,467 in Q4 2021 and F2021, respectively.

The decrease in cash flows from operating activities in Q4 2022 and F2022 as compared to Q4 2021 and F2021 is primarily attributable to lower net income and higher carrying costs of inventory increasing our working capital. These were partially offset by lower tax payments based on reduced taxable income.

Cash Flows used in Financing Activities

For Q4 2022 and F2022, cash flows used in financing activities amounted to $10,213 and $25,190, respectively, compared to $25,622 and $27,064 in Q4 2021 and F2021, respectively.

The decrease in cash flows used in financing activities in Q4 2022 as compared to Q4 2021 was largely driven by lower repayments on our Revolving Credit Facility, based on lower amounts drawn to begin Q4 2022 as compared to Q4 2021, and $5,093 lower repayments on our Term Credit Facility (see "Indebtedness").

The decrease in cash flows used in financing activities in F2022 as compared to F2021 was driven by $5,371 lower repayments on our Term Credit Facility (see "Indebtedness"). This was partially offset by higher cash outflows for lease payments and Shares purchased for cancellation under our normal course issuer bid ("**NCIB**") as described in note 11 of the Annual Financial Statements.

Cash Flows used in Investing Activities

For Q4 2022 and F2022, cash flows used in investing activities amounted to $1,676 and $6,348, respectively, compared to $1,167 and $4,408 in Q4 2021 and F2021, respectively. The increase in cash used in Q4 2022 and F2022 as compared to Q4 2021 and F2021 was primarily due to more capital projects undertaken as compared to F2021.

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 May 28, 2021, the Company amended its Credit Agreement to extend the original maturity date of September 6, 2022 to September 6, 2024 and reduced the $75,000 Revolving Credit Facility to $60,000. The Revolving Credit Facility continues to include a swing loan of $10,000. In addition, the amendment adjusted certain definitions and covenant limits, added a new cash sweep feature for excess cash amounts to be paid after fiscal year-end and included fallback language for LIBOR as the U.S. benchmark with the secured overnight financing rate ("SOFR"), where applicable. During F2021, the Company incurred $931 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.

On April 4, 2023, the Company amended and restated the Credit Agreement to extend the maturity date of September 6, 2024 to September 6, 2026. In addition, the amendment introduced fallback provisions for the Canadian benchmark given the expected transition from the Canadian Dollar Offered Rate ("CDOR") to the Canadian Overnight Repo Rate Average ("CORRA"). The terms of the Credit Agreement have also transitioned from LIBOR and now utilize SOFR.

On December 4, 2021, the Company renewed 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 was originally issued on December 4, 2020 and matured on December 4, 2022.

As at the end of F2022, the Company had a total amount outstanding under its Credit Facilities of $57,635 (F2021 – $62,248) and had total liquidity of $91,921 (F2021 – $93,745), including cash and borrowing capacity available under the Company's Revolving Credit Facility.

The Company has financial and non-financial covenants under the Credit Facilities. The key financial covenants include covenants for total debt to Adjusted EBITDA ratio ("**Leverage Ratio**"), and fixed charge coverage ratio. Adjusted EBITDA used in the calculation of our key financial covenants may differ from the Adjusted EBITDA non-IFRS measure as defined in this MD&A. As at the end of F2022, the Company was in compliance with all covenants.

The Credit Facilities bear interest according to the type of borrowing advanced, which may be based on a reference rate of the U.S. base rate or the Canadian prime rate, plus a margin that ranges from 175 to 300 bps or the LIBOR rate or bankers' acceptances rate, plus a margin that ranges from 275 to 400 bps. The applicable margins are derived from our Leverage Ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 175 bps at less than 2.0x Leverage Ratio, to 300 bps at greater than or equal to 3.5x Leverage Ratio; and (ii) where the LIBOR rate or bankers' acceptances rate is used, the margins range from 275 bps at less than 2.0x Leverage Ratio, to 400 bps at greater than or equal to 3.5x Leverage Ratio. During F2022, the weighted average effective interest rate of the Credit Facilities was 5.5% (F2021 – 3.2%).

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

CAD $000s	Term Credit Facility	Revolving Credit Facility
Within 1 year	4,613	-
Between 1 and 2 years	53,022	-
Total	57,635	-

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes our significant contractual obligations and other obligations as well as our off-balance sheet arrangements as at January 28, 2023:

CAD$000s	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Thereafter	Total
Term Credit Facility (1)	4,613	53,022	–	–	–	–	57,635
Interest commitments relating to long-term debt (2)	4,037	2,802	–	–	–	–	6,839
Payments on lease liabilities	23,952	19,532	16,506	14,027	10,102	12,676	96,795
Inventory purchase commitments (3)	31,224	–	–	–	–	–	31,224
Total commitments and obligations	**63,826**	**75,356**	**16,506**	**14,027**	**10,102**	**12,676**	**192,493**

Notes:

(1) The repayment of the Term Credit Facility may occur prior to the mandatory repayment time if certain events occur and/or at the discretion of the Company.

(2) Based on the interest rate in effect as at January 28, 2023, and assuming no prepayments are made to the Term Credit Facility. Incorporates the impact of interest rate swap contracts (see "Financial Instruments").

(3) 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 cash, 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 cash, 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.

FINANCIAL INSTRUMENTS

We have designated derivative financial instruments as cash flow hedges to manage our exposure to foreign exchange on certain U.S. dollar denominated purchases and variable interest rates on our Credit Facilities. 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 derivative financial instrument, 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 derivative financial instruments are recognized immediately in profit or loss.

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

As of the end of F2022, the Company has recorded derivative assets of $139 (F2021 – $470), representing foreign currency forward contracts ("**forward contracts**") to buy US$26,790 (F2021 – $24,796) at an average rate of 1.32 (F2021 – 1.26) and interest rate swap contracts ("**swap contracts**") to affix its bankers' acceptance rate at 4.4% per annum, on $40,000 of its Credit Facilities. As of the end of F2022, the exchange rate was 1.33 (F2021 – 1.28). The forward contracts have maturity dates between January 30, 2023 and January 2, 2024 and the swap contracts are effective until September 6, 2024.

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

SHARE INFORMATION

As of April 4, 2023, there were 41,247,951 Shares issued and outstanding (April 6, 2022 – 41,697,587). There were no preferred shares issued and outstanding as of April 4, 2023 and April 6, 2022.

During F2022:

- 631,869 Shares were purchased for cancellation, under the Company's NCIB;
- 150,000 time-based options were granted under the Omnibus Equity Incentive Plan;
- 18,334 stock options and 21,337 restricted share units ("**RSUs**") were exercised; and
- 368,056 stock options were forfeited and cancelled.

As at January 28, 2023, 2,295,073 stock options and 15,985 RSUs were granted and outstanding and 1,391,578 options and 15,985 RSUs were vested as of such date. Each stock option and RSU is, or will become, exercisable for one Share.

During F2022, the Company also granted 229,747 deferred share units ("**DSUs**") under the Company's deferred share unit plan (the "**DSU Plan**"). As of January 28, 2023, 779,695 DSUs were outstanding under the DSU Plan. No Shares will be issued upon the settlement of DSUs.

RELATED PARTY TRANSACTIONS

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight beneficially own approximately 49.5% of the total issued and outstanding Shares and the Founders beneficially own approximately 12.7% of the total issued and outstanding Shares. All transactions described below are in the normal course of business and have been accounted for at their exchange value.

The Company leases the building for its leather factory, from a company that is under common control of the Founders. For Q4 2022 and F2022, the rent paid on this property was $71 (Q4 2021 – $71) and $284 (F2021 – $284), respectively, which was recorded in SG&A expenses.

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 transacted in U.S. dollars and we are exposed to foreign exchange risk on financial assets and liabilities denominated in foreign currencies. 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. Changes in the value of foreign currencies relative to the Canadian dollar in respect of sales and costs would result in a foreign currency gain or loss impact in net income. A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed pre-tax net income by $224 as at the end of F2022 as a result of the revaluation of financial assets and liabilities denominated in foreign currencies.

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 weakening Canadian dollar relative to the U.S. dollar would have a negative impact on year-over-year changes in reported net income by increasing the cost of finished goods and raw materials while a strengthening Canadian dollar relative to the U.S. dollar would have the opposite impact. As described above, we entered into certain qualifying foreign currency forward contracts that are designated as cash flow hedges.

Interest Rate Risk

We are exposed to changes in interest rates on our cash and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. As of January 28, 2023, 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 $117 in Q4 2022 and $581 in F2022. 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. In Q4 2022, we entered into interest rate swap contracts to hedge the volatility of the underlying bankers’ acceptance reference rate on $40,000 of our long-term debt, through September 2024.

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 accounts receivable. The Company’s accounts receivable consist primarily of receivables from our business partners from the Partners and Other segment, which are settled in the following fiscal quarter.

Liquidity Risk

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

An evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as of January 28, 2023.

Although the Company's disclosure controls and procedures were operating effectively as of January 28, 2023, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

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

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework and criteria established in "Internal Control – Integrated Framework' published by The Committee of Sponsoring Organizations of the Treadway Commission, 2013". Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at January 28, 2023.

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

CHANGES IN DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in our disclosure controls and internal controls over financial reporting in F2022 that materially affected, or are likely to materially affect, the reliability of our financial reporting and preparation of our financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Inventory valuation

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

Impairment of non-financial assets

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

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

Share-based compensation

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

Gift card breakage

The Company recognizes revenue from unredeemed gift cards ("**breakage**") if the likelihood of gift card redemption by the customer is considered to be remote. The Company estimates its average gift card breakage rate based on historical redemption rates. The resulting revenue from breakage is recognized as redemptions are actualized.

Income taxes

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

Leases

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

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends International Accounting Standard 1 – *Presentation of Financial Statements* ("**IAS 1**"). 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, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

In February 2021, the IASB issued *Definition of Accounting Estimates*, which amends IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. 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 adoption of amendments to IAS 8 does not have a material impact on the Company's consolidated financial statements.

In February 2021, the IASB issued *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2 – *Making Material Judgements* ("**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 adoption of amendments to IAS 1 and Practice Statement 2 does not have a material impact on the Company's consolidated financial statements.

SUBSEQUENT EVENTS

On April 4, 2023, the Company amended its Credit Agreement to extend the original maturity date of September 6, 2024 to September 6, 2026. The amendment does not reflect any changes to the size of the existing Credit Facilities or covenant limits. 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.

In March 2023, the Company appointed Joey Gollish, founder of fashion label known as "Mr. Saturday", as Creative Director in Residence. As part of this arrangement, Roots has made a minority equity investment in Saturday Industries Limited and has agreed to issue, subject to TSX approval, 100,000 common share purchase warrants ("Warrants") to Saturday Industries Limited. Each Warrant will be exercisable for one Share.

ADDITIONAL INFORMATION

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

ROOTS CORPORATION

Consolidated Financial Statements

For the 52-week periods ended January 28, 2023 and
January 29, 2022
(In Canadian dollars)

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KPMG LLP
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3
Tel 905-265 5900
Fax 905-265 6390
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Roots Corporation

Opinion

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

- the consolidated statement of financial position as at January 28, 2023 and January 29, 2022
- the consolidated statement of net income for the 52-week periods then ended
- the consolidated statement of comprehensive income for the 52-week periods then ended
- the consolidated statement of changes in shareholders' equity for the 52-week periods then ended
- the consolidated statement of cash flows for the 52-week periods then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at January 28, 2023 and January 29, 2022, and its consolidated financial performance and its consolidated cash flows for the 52-week periods then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the 52-week period ended January 28, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

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

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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Bryant William Ramdoo.

Vaughan, Canada

April 4, 2023

ROOTS CORPORATION

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

As at January 28, 2023 and January 29, 2022

	Note	January 28, 2023	January 29, 2022
Assets			
Current assets			
Cash		$ 31,921	$ 34,161
Accounts receivable	4,14	5,684	5,984
Inventories	5	54,990	41,256
Prepaid expenses		3,421	3,969
Loan receivable	14,19	–	633
Derivative assets	8,14	139	470
Total current assets		96,155	86,473
Non-current assets:			
Fixed assets	6	39,170	42,847
Right-of-use assets	9	62,484	68,000
Intangible assets	7	186,177	188,479
Goodwill	7	7,906	7,906
Total non-current assets		295,737	307,232
Total assets		**$ 391,892**	**$ 393,705**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	14	$ 38,414	$ 28,307
Deferred revenue		6,049	6,338
Income taxes payable	15	3,098	6,704
Current portion of lease liabilities	9,14	22,858	22,190
Current portion of long-term debt	10,14	4,613	4,613
Total current liabilities		75,032	68,152
Non-current liabilities:			
Deferred tax liabilities	15	19,130	17,383
Long-term portion of lease liabilities	9,14	57,575	65,947
Long-term debt	10,14	52,113	56,166
Total non-current liabilities		128,818	139,496
Total liabilities		203,850	207,648
Shareholders' equity:			
Share capital	11	189,338	195,070
Contributed surplus	13	4,380	4,107
Accumulated other comprehensive income		102	346
Retained earnings (deficit)		(5,778)	(13,466)
Total shareholders' equity		188,042	186,057
Total liabilities and shareholders' equity		**$ 391,892**	**$ 393,705**
Contingencies	17		

On behalf of the Board of Directors:

"Erol Uzumeri" Director

"Richard P. Mavrinac" Director

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 28, 2023 and January 29, 2022

	Note		January 28, 2023		January 29, 2022
Sales		$	272,116	$	273,834
Cost of goods sold	5		115,140		110,977
Gross profit			156,976		162,857
Selling, general and administrative expenses	20		138,625		122,850
Income before interest expense and income taxes expense			18,351		40,007
Interest expense	16		8,756		8,808
Income before income taxes			9,595		31,199
Income taxes expense	15		2,902		8,436
Net income		**$**	**6,693**	**$**	**22,763**
Basic earnings per Share	12	$	0.16	$	0.54
Diluted earnings per Share	12	$	0.16	$	0.53

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 28, 2023 and January 29, 2022

	Note	January 28, 2023	January 29, 2022
Net income		$ 6,693	$ 22,763
Other comprehensive income, net of taxes:			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	8,14	839	211
Cost of hedging excluded from cash flow hedges	8,14	(49)	(35)
Tax impact of cash flow hedges	8,14	(209)	(47)
Total other comprehensive income		581	129
Total comprehensive income		**$ 7,274**	**$ 22,892**

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 28, 2023 and January 29, 2022

January 28, 2023	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 30, 2022		**$ 195,070**	**$ 4,107**	**$ (13,466)**	**$ 346**	**$ 186,057**
Net income		–	–	6,693	–	6,693
Net gain from change in fair value of cash flow hedges, net of income taxes		–	–	–	581	581
Transfer of net realized gain on cash flow hedges, net of income taxes		–	–	–	(825)	(825)
Share-based compensation	13	–	380	–	–	380
Issuance of Shares	11,13	133	(107)	–	–	26
Purchase of Shares	11	(5,865)	–	995	–	(4,870)
Balance, January 28, 2023		**$ 189,338**	**$ 4,380**	**$ (5,778)**	**$ 102**	**$ 188,042**

January 29, 2022	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 income		–	–	22,763	–	22,763
Net gain from change in fair value of cash flow hedges, net of income taxes		–	–	–	129	129
Transfer of net realized loss on cash flow hedges to inventories, net of income taxes		–	–	–	444	444
Share-based compensation	13	–	655	–	–	655
Issuance of Shares	11,13	265	(230)	–	–	35
Purchase of Shares	11	(2,528)	–	294	–	(2,234)
Balance, January 29, 2022		**$ 195,070**	**$ 4,107**	**$ (13,466)**	**$ 346**	**$ 186,057**

See accompanying notes to consolidated financial statements.

ROOTS CORPORATION

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

For the 52-week periods ended January 28, 2023 and January 29, 2022

	Note	January 28, 2023	January 29, 2022
Cash provided by (used in):			
Operating activities:			
Net income		$ 6,693	$ 22,763
Items not involving cash:			
Depreciation and amortization	6,7,9	29,324	29,994
Share-based compensation expense	13	380	655
Impairment, net of reversals, of fixed assets and right-of-use assets	6,9	435	649
Gain on lease modification	9	(953)	(438)
Rent concessions related to practical expedient	9	(24)	(2,595)
Interest expense	16	8,756	8,808
Income taxes expense	15	2,902	8,436
Settlement of de-designated forward contracts	8	–	(109)
Interest paid		(3,425)	(2,862)
Payment of interest on lease liabilities	9	(4,771)	(5,360)
Income taxes paid		(4,674)	(6,433)
Change in non-cash operating working capital:			
Accounts receivable	4	933	1,181
Inventories	5	(13,734)	1,145
Prepaid expenses		548	(832)
Accounts payable and accrued liabilities		7,197	886
Deferred revenue		(289)	579
		29,298	56,467
Financing activities			
Long-term debt financing costs	10	–	(931)
Repayment of Term Credit Facility	10	(4,613)	(9,984)
Proceeds from issuance of Shares	11	26	35
Purchase of Shares	11	(1,959)	(663)
Payment of principal on lease liabilities, net of tenant allowance	9	(18,644)	(15,521)
		(25,190)	(27,064)
Investing activities			
Additions to right-of-use assets		(315)	–
Additions to fixed assets	6	(6,033)	(4,408)
		(6,348)	(4,408)
Increase (decrease) in cash		(2,240)	24,995
Cash, beginning of period		34,161	9,166
Cash, end of period		**$ 31,921**	**$ 34,161**

See accompanying notes to consolidated financial statements.

1. Nature of operations and basis of presentation

Nature of operations

Established in 1973, Roots is a global lifestyle brand. Starting from a small cabin in northern Canada, Roots has become a global brand, which as of January 28, 2023, operated 107 corporate retail stores and 12 temporary pop-up locations in Canada, two corporate retail stores in the United States, and an eCommerce platform, www.roots.com. We have more than 100 partner-operated stores in Asia, and we also operate a dedicated Roots-branded storefront on Tmall.com in China. We design, market, and sell a broad selection of products in different departments, including women's, men's, children's, and gender-free apparel, leather goods, footwear, and accessories. Our products are built with uncompromising comfort, quality, and style that allows you to feel at home with nature. We offer products designed to meet life's everyday adventures and provide you with the versatility to live your life to the fullest. We also wholesale through business-to-business channels and license the brand to a select group of licensees selling products to major retailers.

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

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

Basis of preparation

(a) Fiscal period

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

(b) Statement of compliance

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on April 4, 2023.

(c) Basis of measurement

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

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

(d) Functional currency

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

(e) Basis of consolidation

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

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

(f) Operating environment:

The worldwide COVID-19 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. While stores remained open and traffic improved during fiscal year 2022, the financial results of fiscal year 2021 and fiscal year 2022 were negatively impacted by supply chain disruptions and economic conditions stemming from the COVID-19 pandemic. As part of the restrictions imposed by government authorities, certain stores were closed for periods of time during the first half of fiscal 2021.

The Company is also impacted by higher inflation in the markets in which it operates, including through the increased cost of inventory, third-party services, and labour costs. Central banks also raised interest rates, which, along with the higher inflation rates, may weaken consumer sentiment, decrease discretionary spending levels, increase consumer price sensitivity, and negatively impact sales. To the extent that higher inflationary costs and higher interest rates continue, the degree to which the Company's operations could be affected may increase.

(g) Use of estimates and judgements

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

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

(i) Inventory valuation

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

(ii) Impairment of non-financial assets

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

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

(iii) *Share-based compensation*

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

(iv) *Gift card breakage*

The Company recognizes revenue from unredeemed gift cards ("breakage") if the likelihood of gift card redemption by the customer is considered to be remote. The Company estimates its average breakage rate based on historical redemption rates since the inception of its gift card program. The resulting revenue from breakage is recognized as redemptions are actualized.

(v) *Leases*

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

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

(vi) *Income taxes*

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

2. Significant accounting policies

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

(a) Foreign currency

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

(b) Revenue recognition

Revenue includes sales to customers through retail stores operated by the Company and through its eCommerce channels. Sales through 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 historical return rate trends for retail stores and eCommerce sales, respectively.

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

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

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

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

(c) Inventories

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

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

Work in progress is recorded at the lower of costs incurred in the manufacturing process and net realizable value.

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

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

(d) Fixed assets

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

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

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

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

(e) Intangible assets

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

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

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

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

(f) Impairment of non-financial assets

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

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

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

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

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

(g) Leased assets

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

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

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

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

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

(h) Income taxes

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

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

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

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

(i) Share-based compensation

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

(j) Earnings per Share ("EPS")

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

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

(k) Financial instruments

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

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

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

The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. The Company designates foreign currency forward contracts ("forward contracts") under a cash flow hedge for its foreign currency exposure on a portion of its U.S. dollar denominated purchases and designates interest rate swap contracts ("swap contracts") under a cash flow hedge for its interest rate exposure on a portion of its

Credit Facilities (as defined in Note 10). On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. At inception and each quarter-end thereafter, the Company formally assesses the effectiveness of its cash flow hedges.

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

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

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

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

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

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

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

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

(l) Government grants

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

(m) 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, 2024. 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 adoption of amendments to IAS 8 does not have a material impact on the Company’s consolidated financial statements.

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 adoption of amendments to IAS 1 and IFRS Practice Statement 2 does not have a material impact on the Company's consolidated financial statements.

(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 the Company's eCommerce website www.roots.com; and

(b) The "Partners and Other" segment consists primarily of the wholesale of Roots-branded products to our international operating partner. The Partners and Other segment also includes the Company's sales from its Roots-branded storefront on business-to-consumer marketplace website Tmall.com in China, royalties earned through the licensing of our brand to select manufacturing partners, the wholesale of Roots-branded products to select retail partners, and the sale of custom Roots-branded products to select business clients.

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

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

	January 28, 2023			January 29, 2022		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	$ 231,230	$ 40,886	$ 272,116	$ 235,837	$ 37,997	$ 273,834
Cost of goods sold	90,754	24,386	115,140	88,187	22,790	110,977
Gross profit	140,476	16,500	156,976	147,650	15,207	162,857
Selling, general and administrative expenses(1)			138,625			122,850
Income before interest expense and income taxes expense			18,351			40,007
Interest expense(1)			8,756			8,808
Income before income taxes			$ 9,595			$ 31,199

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

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

4. Accounts receivable

				January 28, 2023				January 29, 2022
	0-90 days	91-120 days	>120 days	**Total**	0-90 days	91-120 days	>120 days	**Total**
Accounts receivable	$ 5,283	$ 136	$ 265	**$ 5,684**	$ 5,877	$ 86	$ 21	**$ 5,984**

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

	January 28, 2023	January 29, 2022
Allowance for doubtful accounts receivable, beginning of period	$ –	$ (8)
Net write off	–	8
Allowance for doubtful accounts receivables, end of period	$ –	$ –

5. Inventories

	January 28, 2023	January 29, 2022
Raw materials	$ 5,274	$ 5,031
Work in progress	552	409
Finished goods – On hand	39,895	30,928
Finished goods – In-transit	9,269	4,888
	$ 54,990	$ 41,256

The cost of merchandise inventories recognized as an expense and included in cost of goods sold for the period ended January 28, 2023 was $108,051 (period ended January 29, 2022 – $104,482). Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centre and stores including freight, import taxes and duties.

During the period ended January 28, 2023, the Company recorded a $1,399 provision for inventories with net realizable values below cost (period ended January 29, 2022 – $686).

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

6. Fixed assets

	Computer hardware	Furniture and fixtures	Equipment	Computer software	Leasehold improvements	Total
Cost						
Balance, January 30, 2021	$ 1,913	$ 5,352	$ 11,336	$ 19,041	$ 67,597	$ 105,239
Additions	98	47	1,717	1,470	1,076	4,408
Disposals/adjustments(1)	(159)	(911)	–	(895)	(41,978)	(43,943)
Reclassifications	55	–	(9,376)	(55)	9,376	–
Balance, January 29, 2022	$ 1,907	$ 4,488	$ 3,677	$ 19,561	$ 36,071	$ 65,704
Additions	221	186	224	3,178	2,224	6,033
Disposals/adjustments(1)	–	(69)	–	–	(507)	(576)
Reclassifications to right-of-use assets	–	–	–	–	(225)	(225)
Balance, January 28, 2023	$ 2,128	$ 4,605	$ 3,901	$ 22,739	$ 37,563	$ 70,936
Accumulated depreciation and impairment losses						
Balance, January 30, 2021	$ 918	$ 2,316	$ 2,426	$ 8,096	$ 43,502	$ 57,258
Depreciation	157	576	193	2,133	6,139	9,198
Disposals/adjustments(1)	(159)	(911)	–	(895)	(41,978)	(43,943)
Reclassifications	36	–	(1,864)	(36)	1,864	–
Impairment losses	11	–	–	–	630	641
Reversal of impairment losses	–	–	–	–	(297)	(297)
Balance, January 29, 2022	$ 963	$ 1,981	$ 755	$ 9,298	$ 9,860	$ 22,857
Depreciation	209	463	292	2,142	6,061	9,167
Disposals/adjustments(2)	–	(69)	–	–	(507)	(576)
Reclassifications to right-of-use assets	–	–	–	–	(38)	(38)
Impairment losses	2	–	–	–	596	598
Reversal of impairment losses	–	–	–	–	(242)	(242)
Balance, January 28, 2023	$ 1,174	$ 2,375	$ 1,047	$ 11,440	$ 15,730	$ 31,766
Carrying amount						
January 29, 2022	$ 944	$ 2,507	$ 2,922	$ 10,263	$ 26,211	$ 42,847
January 28, 2023	954	2,230	2,854	11,299	21,833	39,170

(2) Disposals/adjustments includes the write-off of fully depreciated fixed assets which have no impact to the carrying amount of fixed assets as at January 28, 2023 and January 29, 2022.

For the period ended January 28, 2023, the Company recorded $598 (period ended January 29, 2022 – $641) of impairment losses on fixed assets and $79 (period ended January 29, 2022 – $305) of impairment losses on right-of-use assets as disclosed in Note 9. Impairment losses were in respect of two CGUs (period ended January 29, 2022 – five CGUs) using a VIU test in the Direct-to-Consumer operating segment, recorded as part of selling, general and administrative expenses.

For the period ended January 28, 2023, the Company recorded $242 of impairment reversals on fixed assets (period ended January 29, 2022 – $297). Impairment reversals were in respect of two CGUs (period ended January 29, 2022 – two CGUs) using a VIU test in the Direct-to-Consumer operating segment, recorded as part of selling, general and administrative expenses.

The recoverable amount for a store location is based on the VIU of the related CGU. When determining the VIU of a store location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining lease term. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long-term growth rates. The estimate of the VIU of the relevant CGUs was determined using a pre-tax discount rate of 13.0% at January 28, 2023 (January 29, 2022 – 12.5%).

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

7. Intangible assets and Goodwill

	Trade names	License arrangements	Customer relationships	Total intangible assets	Goodwill
Cost					
Balance, January 30, 2021	$ 175,044	$ 25,910	$ 7,766	$ 208,720	$ 52,705
Balance, January 29, 2022	175,044	25,910	7,766	208,720	52,705
Balance, January 28, 2023	**$ 175,044**	**$ 25,910**	**$ 7,766**	**$ 208,720**	**$ 52,705**
Accumulated amortization and impairment losses					
Balance, January 30, 2021	$ –	$ 13,925	$ 4,018	$ 17,943	$ 44,799
Amortization	–	1,523	775	2,298	–
Balance, January 29, 2022	–	15,448	4,793	20,241	44,799
Amortization	–	1,527	775	2,302	–
Balance, January 28, 2023	**$ –**	**$ 16,975**	**$ 5,568**	**$ 22,543**	**$ 44,799**
Carrying amount					
January 29, 2022	$ 175,044	$ 10,462	$ 2,973	$ 188,479	$ 7,906
January 28, 2023	175,044	8,935	2,198	186,177	7,906

Amortization expenses, impairment losses and reversals are recorded in selling, general and administrative expenses in the consolidated statement of net income in the period in which they occur. No impairment losses or reversals were recognized on definite life intangible assets for the period ended January 28, 2023 (period ended January 29, 2022 – $nil).

Amortization expense on definite life intangible assets of $2,302 for the period ended January 28, 2023 (period ended January 29, 2022 – $2,298) has been recognized in the consolidated statement of net income.

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

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

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

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

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

	Indefinite life trade names			Goodwill		
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Balance, January 29, 2022	$ 161,040	$ 14,004	$ 175,044	$ –	$ 7,906	$ 7,906
Impairment	–	–	–	–	–	–
Balance, January 28, 2023	**$ 161,040**	**$ 14,004**	**$ 175,044**	**$ –**	**$ 7,906**	**$ 7,906**

As at January 28, 2023, the recoverable amount of each CGU group was based on FVLCS and was determined by discounting the future cash flows generated from the CGU group.

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

Key assumptions used in the Company's annual impairment assessment as at January 28, 2023 include:

- Annual sales growth rates
- Terminal growth rate of 2.0% (January 29, 2022 – 2.0%)
- After-tax discount rate of 14.5% (January 29, 2022 – 14.0%)

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

For both periods ended January 28, 2023 and January 29, 2022, the Company completed its annual impairment tests for indefinite life trade names and goodwill and concluded that the recoverable amount exceeded the carrying amount of CGU groups and, therefore, no goodwill and indefinite life intangible asset impairment losses were recorded.

8. Financial instruments

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

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

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

There were no transfers between levels of the fair value hierarchy for the periods ended January 28, 2023 and January 29, 2022.

The Company enters into foreign exchange forward contracts to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at January 28, 2023, the Company had outstanding forward contracts to buy US$26,790 (January 29, 2022 – US$24,796) at an average forward rate of 1.32 (January 29, 2022 – 1.26). As at January 28, 2023, the maturity dates on the forward contracts were between January 30, 2023 and January 2, 2024.

For the periods ended January 28, 2023 and January 29, 2022, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a gain of $885 (net of tax – $651) and a gain of $211 (net of tax – $155), respectively, which were recorded in other comprehensive income.

As at January 28, 2023 and January 29, 2022, there were $nil future U.S. dollar denominated hedged purchases that were no longer expected to occur. For the period ended January 29, 2022, the Company settled previously de-designated forward contracts with an accumulated loss of $(109) (net of tax – $(80)).

The Company enters into interest rate swap contracts to hedge its exposure to changes in the market interest rates for a portion of the Credit Facilities (see Note 10). As at January 28, 2023, the Company had outstanding swap contracts to affix its bankers' acceptance rate at 4.4% per annum, through September 2024, on $40,000 of its long-term debt under its Credit Facilities (January 29, 2022 - $nil).

For the period ended January 28, 2023, the effective portion of changes in the fair value of interest rate swap contracts resulted in a loss of $46 (net of tax - $34), which was recorded in other comprehensive income. There were no interest rate swap contracts during the period ended January 29, 2022.

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

9. Leases

The Company leases various corporate retail store locations, its head office, a distribution warehouse, a manufacturing facility, and equipment under non-cancellable operating lease agreements. Corporate retail stores typically have a contractual lease period of 5 to 10 years with additional renewal terms available thereafter. Temporary pop-up locations typically have a contract lease period less than 2 years. Any leases less than 12 months qualify for the short-term exemption discussed in Note 2.

(a) Right-of-use assets

The following table reconciles the changes in right-of-use assets for the periods ended January 28, 2023 and January 29, 2022:

		January 28, 2023		January 29, 2022
Cost				
Balance, beginning of period	$	134,091	$	127,097
Adjustment on amendment of IFRS 16		–		983
Adjusted balance, beginning of period		134,091		128,080
Additions		6,161		3,872
Adjustments		6,187		2,473
Reclassifications from fixed assets		225		–
Tenant allowances		(117)		(334)
Balance, end of period	**$**	**146,547**	**$**	**134,091**
Accumulated amortization and impairment losses				
Balance, beginning of period	$	66,091	$	47,102
Adjustment on amendment of IFRS 16		–		186
Adjusted balance, beginning of period		66,091		47,288
Depreciation		17,855		18,498
Reclassifications from fixed assets		38		–
Impairment losses (Note 6)		79		305
Balance, end of period	**$**	**84,063**	**$**	**66,091**
Carrying amount	**$**	**62,484**	**$**	**68,000**

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

(b) Lease liabilities

The following table reconciles the changes in lease liabilities for the periods ended January 28, 2023 and January 29, 2022:

		January 28, 2023		January 29, 2022
Balance, beginning of period	$	88,137	$	101,186
Adjustment on amendment of IFRS 16		–		681
Adjusted balance, beginning of period		88,137		101,867
Additions		5,846		3,872
Adjustments		5,234		848
Tenant allowances		(117)		(334)
Interest expense on lease liabilities		4,771		5,360
Rent concessions		(24)		(2,595)
Repayment of interest and principal on lease liabilities, net of tenant allowance		(23,414)		(20,881)
Balance, end of period	**$**	**80,433**	**$**	**88,137**
Recorded in the consolidated statement of financial position as follows:				
Current portion of lease liabilities	$	22,858	$	22,190
Long-term portion of lease liabilities		57,575		65,947
	$	80,433	$	88,137

(c) Commitments

The Company also has future undiscounted cash flows of $1,833 (period ended January 29, 2022 – $494) related to leases not yet commenced but committed to.

(d) Variable Lease Payments

The Company makes variable lease payments for property tax and insurance charges on leased properties. The Company has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. During the period ended January 28, 2023, $10,009 was recognized in selling, general and administrative expenses related to these variable lease arrangements (period ended January 29, 2022 – $9,883).

(e) Rent Concessions

For the period ended January 28, 2023, the Company received $24 of base rent concessions, which qualified for the practical expedient and were recorded as a reduction in selling, general and administrative expenses (period ended January 29, 2022 – $2,595).

10. Long-term debt

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

On May 28, 2021, the Company amended its Credit Agreement to extend the original maturity date from September 6, 2022 to September 6, 2024 and reduced the $75,000 Revolving Credit Facility to $60,000. The Revolving Credit Facility continues to include a swing loan of $10,000. In addition, the amendment adjusted certain definitions and covenant limits, added in a new cash sweep feature for excess cash amounts to be paid after fiscal year-end and included fallback language for LIBOR as the U.S benchmark with the secured overnight financing rate ("SOFR"), where applicable. The Company incurred $931 of costs associated with the amendment, which were recorded as debt financing costs within long-term debt and will be recognized as interest expense over the remaining term of the loan.

On April 4, 2023, the Company amended and restated its Credit Agreement to extend the original maturity of September 6, 2024 to September 6, 2026. In addition, the amendment introduced fallback provisions for the Canadian benchmark given the expected transition from the Canadian Dollar Offered Rate ("CDOR") to the Canadian Overnight Repo Rate Average ("CORRA"). The terms of the Credit Agreement have also transitioned from LIBOR and now utilize SOFR. See Note 20 – Subsequent Events.

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 175 to 300 bps or the LIBOR rate or bankers' acceptances rate, plus a margin that ranges from 275 to 400 bps. The applicable margins are derived from our Leverage Ratio, as follows: (i) where the U.S. base rate or a Canadian prime rate is used, the margins range from 175 bps at less than 2.0x Leverage Ratio, to 300 bps at greater than or equal to 3.5x Leverage Ratio; and (ii) where the LIBOR rate or bankers' acceptances rate is used, the margins range from 275 bps at less than 2.0x Leverage Ratio, to 400 bps at greater than or equal to 3.5x Leverage Ratio. During the year ended January 28, 2023, the Company entered into interest rate swap contracts to hedge the volatility of the underlying bankers' acceptance reference rate on $40,000 of its long-term debt, through September 2024 (see Note 8).

As at January 28, 2023 and January 29, 2022, there were no amounts drawn on the Revolving Credit Facility. During the period ended January 28, 2023, the weighted average effective interest rate of the Credit Facilities was 5.5% (period ended January 29, 2022 – 3.2%).

On December 4, 2021, the Company renewed 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 matured on December 4, 2022.

(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 periods ended January 28, 2023 and January 29, 2022:

	January 28, 2023	January 29, 2022
Long-term debt, beginning of period	$ 60,779	$ 71,084
Long-term debt repayments of Term Credit Facility	(4,613)	(9,984)
Long-term debt financing costs	–	(931)
Total cash flow from long-term debt financing activities	56,166	60,169
Amortization of long-term debt financing costs	560	610
Total non-cash long-term debt activity	560	610
Total long-term debt, end of period (1)	**$ 56,726**	**$ 60,779**

(1) As at January 28, 2023, total long-term debt of $56,726 is net of $909 unamortized long-term debt financing costs. As at January 29, 2022, total long-term debt of $60,779 is net of $1,469 unamortized long-term debt financing costs.

Recorded in the consolidated statement of financial position as follows:

Current portion of long-term debt	$ 4,613	$ 4,613
Long-term portion of long-term debt	52,113	56,166
	$ 56,726	$ 60,779

As at January 28, 2023, principal repayments due on long-term debt were as follows:

	Term Credit Facility
Within 1 year	$ 4,613
Within 1 - 2 years(2)	53,022
Total	$ 57,635

(2) On April 4, 2023, the Company amended and restated its Credit Agreement to extend the original maturity of September 6, 2024 to September 6, 2026.

11. Share capital

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

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

There were no dividends or distributions declared during the periods ended January 28, 2023 and January 29, 2022.

During the period ended January 28, 2023, 39,671 Shares (January 29, 2022 – 60,554 Shares) were issued from treasury as a result of the exercise of 18,334 stock options (January 29, 2022 – 25,001 stock options) and 21,337 restricted share units ("RSUs") (January 29, 2022 – 35,553 RSUs) granted under the Company's Omnibus Equity Incentive Plan (the "Omnibus Plan"), see Note 13.

<u>Share Purchase</u>

On December 14, 2021, the TSX accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), allowing the Company to purchase, at its discretion, up to 2,172,928 Shares. The program commenced on December 16, 2021 and terminated on December 15, 2022.

On December 9, 2022, the Company subsequently renewed its NCIB to purchase, at its discretion, up to 2,119,667 Shares. The program commenced on December 16, 2022 and will terminate on December 15, 2023, or on such earlier date as the Company completes its purchases pursuant to the notice of intention.

During the period ended January 28, 2023, 631,869 Shares were purchased for cancellation, for aggregate consideration of $1,959, resulting in a decrease to share capital of $2,954 and an increase to retained earnings (deficit) of $995.

During the period ended January 29, 2022, 204,575 Shares were purchased for cancellation for $663, resulting in a decrease to share capital of $957 and an increase to retained earnings (deficit) of $294.

On January 3, 2022, the Company entered into an Automatic Share Purchase Plan ("ASPP") that allows the purchase of Shares for cancellation under the NCIB at any time during predetermined trading blackout periods. As at January 28, 2023, an obligation of $4,481 (January 29, 2022 - $1,571) was recognized in accounts payable and accrued liabilities for the purchase of Shares under the ASPP and recorded against share capital.

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

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

	January 28, 2023			January 29, 2022		
	Number of Shares		Share capital	Number of Shares		Share capital
Outstanding Shares, beginning of period	42,054,061	$	195,070	42,198,082	$	197,333
Issuance of Shares	39,671		133	60,554		265
Purchase of Shares[(1)]	(631,869)		(5,865)	(204,575)		(2,528)
Outstanding Shares, end of period	41,461,863	$	189,338	42,054,061	$	195,070

(1) Reduction to share capital includes an obligation to repurchase shares of $4,481 under the ASPP (January 29, 2022 - $1,571).

As at January 28, 2023, there were 41,461,863 Shares (January 29, 2022 – 42,054,061 Shares) and nil preferred shares (January 29, 2022 – nil preferred shares) issued and outstanding. All issued Shares are fully paid.

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

12. Earnings per Share

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

	January 28, 2023	January 29, 2022
Weighted average Shares outstanding	41,739,504	42,221,249
Dilutive share-based compensation	528,399	606,690
Dilutive weighted average Shares outstanding	42,267,903	42,827,939

		January 28, 2023		January 29, 2022
Net income		6,693		22,763
Basic earnings per Share	$	0.16	$	0.54
Diluted earnings per Share		0.16		0.53

For the periods ended January 28, 2023 and January 29, 2022, 1,236,905 and 1,521,629 stock options, respectively, were not included in the calculation of dilutive weighted average Shares outstanding, as they were not “in-the-money” and therefore anti-dilutive.

For the periods ended January 28, 2023 and January 29, 2022, no RSUs were excluded in the calculation of diluted EPS.

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

13. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy up to 3,731,315 Shares. As at January 28, 2023, 2,295,073 stock options and 15,985 RSUs were granted and outstanding.

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

For the period ended January 28, 2023	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
Outstanding options, beginning of period	321,282	$ 6.26	2,210,181	$ 2.84	2,531,463	$ 3.28
Granted	–	–	150,000	2.47	150,000	2.47
Exercised	–	–	(18,334)	1.41	(18,334)	1.41
Forfeited	(107,096)	6.26	(260,960)	3.36	(368,056)	4.20
Outstanding options, end of period	214,186	$ 6.26	2,080,887	$ 2.76	2,295,073	$ 3.09
Exercisable options, end of period	214,186	$ 6.26	1,177,392	$ 2.73	1,391,578	$ 3.28

For the period ended January 29, 2022	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
Outstanding options, beginning of period	374,828	$ 6.26	1,650,480	$ 2.57	2,025,308	$ 3.26
Granted	–	–	909,500	3.59	909,500	3.59
Exercised	–	–	(25,001)	1.41	(25,001)	1.41
Forfeited	(53,546)	6.26	(324,798)	3.68	(378,344)	4.05
Outstanding options, end of period	321,282	$ 6.26	2,210,181	$ 2.84	2,531,463	$ 3.28
Exercisable options, end of period	321,282	$ 6.26	578,749	$ 3.15	900,031	$ 4.26

The fair value of stock options granted during the period ended January 28, 2023 was $145 (period ended January 29, 2022 – $1,107).

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

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

	January 28, 2023	January 29, 2022
Expected volatility	34.4% – 35.5%	33.0% – 35.1%
Share price at grant date	$2.47 – $2.47	$3.12 – $3.62
Exercise price	$2.47 – $2.47	$3.12 – $3.62
Risk-free interest rate	2.84% – 2.95%	0.83% – 1.15%
Expected term	5.5 years – 6.5 years	5.5 years – 6.5 years
Fair value per option	$0.93 – $0.99	$1.05 – $1.27

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

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

For the period ended January 28, 2023	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	21,337	549,948	37,322	549,948
Granted	–	–	229,747	–	229,747
Exercised	–	(21,337)	–	(21,337)	–
Forfeited	–	–	–	–	–
Units, end of period	15,985	–	779,695	15,985	779,695

For the period ended January 29, 2022	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	–	–	130,278	–	130,278
Exercised	–	(35,553)	–	(35,553)	–
Forfeited	–	(20,688)	–	(20,688)	–
Units, end of period	15,985	21,337	549,948	37,322	549,948

There were 15,985 RSUs vested as at January 28, 2023 (January 29, 2022 – 15,985). The fair value of DSUs granted during the period ended January 28, 2023 was $587 (period ended January 29, 2022 – $440).

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

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

The Company's DSUs are cash-settled instruments, such that when exercised, participants will receive a payment in cash equal to the fair market value of the Shares represented by the DSUs on the exercise date. The Company records the fair market value of potential cash-settlement obligations from existing DSUs in accounts payable and accrued liabilities. All changes to the fair value of the liability are recorded in the consolidated statement of net income. For the period ended January 28, 2023, the fair market value of future DSU cash-settlement obligations was $2,230 (period ended January 29, 2022 – $1,738). During the periods ended January 28, 2023 and January 29, 2022, the Company recorded a gain of $94 and a loss of $367, respectively, from the changes to fair market value of DSU cash-settlement obligations.

The grant date fair value of share-based compensation awards granted to employees is recognized as share-based compensation expense, recorded in selling, general and administrative expenses with a corresponding increase to contributed surplus, over the period that the employees unconditionally become entitled to the awards. For the period ended January 28, 2023, the Company recorded share-based compensation expense of $380 (period ended January 29, 2022 - $655).

14. Financial risk management

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

(a) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company prepares cash flow forecasts to ensure it has sufficient funds through operations and access to debt facilities to meet its financial obligations. The Company maintains the Credit Facilities, as described in Note 10, allowing it to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving financial forecasts. Market conditions are difficult to predict and there is no assurance that the Company will achieve its forecasts. In the event of non-compliance, the Company's lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants.

The contractual maturities of the Company's current and long-term financial liabilities as at January 28, 2023, 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						
Accounts payable and accrued liabilities	$ 38,414	$ 38,414	$ 38,414	$ –	$ –	$ –
Long-term debt	56,726	57,635	4,613	53,022	–	–
Lease liabilities	80,433	94,962	23,826	35,695	23,772	11,669
	$ 175,573	$ 191,011	$ 66,853	$ 88,717	$ 23.772	$ 11,669

(b) Currency risk

The Company is exposed to foreign exchange risk on foreign currency denominated financial assets and liabilities. A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed pre-tax net income for the period ended January 28, 2023 by $224 (period ended January 29, 2022 – $199), as a result of the revaluation on these financial assets and liabilities.

The Company purchases a significant amount of its merchandise in U.S. dollars and enters into forward contracts to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The Company has performed a sensitivity analysis on its forward contracts (designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income. A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables remain constant, would have changed other comprehensive income for the period ended January 28, 2023 by $1,743 (period ended January 29, 2022 – $1,580), 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 period ended January 28, 2023 by $581 (period ended January 29, 2022 – $818).

During the year ended January 28, 2023, the Company entered into interest rate swap contracts to hedge the volatility of the underlying bankers' acceptance reference rate on $40,000 of its long-term debt, through September 2024.

(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, and accounts receivable. The Company limits its exposure to credit risk with respect to cash by dealing only with large Canadian and U.S. financial institutions. The Company's accounts receivable consists primarily of receivables from business partners in the Partners and Other operating segment, which are settled in the following fiscal quarter.

As at January 28, 2023, the Company's maximum exposure to credit risk for accounts receivable and loan receivable financial instruments was $5,684 (January 29, 2022 - $6,617).

(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 net income before interest expense, income taxes expense and depreciation and amortization ("EBITDA") as a measure of its ability to service its debt and meet other financial obligations as they become due.

The Company has financial and non-financial covenants under the Credit Facilities which allow for certain adjustments to EBITDA ("Adjusted EBITDA") for purposes of compliance with those covenants. The key financial covenant includes a total debt to Adjusted EBITDA ratio and a fixed charge coverage ratio. As at January 28, 2023, the Company was in compliance with its covenants under the Credit Facilities.

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

15. Income taxes expense

The Company's income taxes expense comprises the following:

	January 28, 2023	January 29, 2022
Current income taxes expense	$ 1,066	$ 7,182
Deferred income taxes expense relating to the origination and reversal of temporary differences:	1,836	1,254
Total income taxes expense	**$ 2,902**	**$ 8,436**

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

	January 28, 2023	January 29, 2022
Combined basic federal and provincial average statutory tax rate	26.5%	$ 26.5%
Non-deductible expenses	3.8%	0.5%
Effective tax rate	30.3%	27.0%

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

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

For the period ended January 28, 2023 and January 29, 2022, deferred tax assets have not been recognized in respect of $18,201 of capital losses as it is not probable that sufficient capital gains would be available in the future to utilize this attribute. Capital losses can be carried forward indefinitely.

The following tables outline the movements in the deferred tax liabilities:

	As at January 29, 2022	Expense (Recovery)	Other Comprehensive Income	As at January 28, 2023
Deferred financing costs	$ 74	$ 14	$ –	$ 88
Fixed assets	(410)	199	–	(211)
Right-of-use assets and lease liabilities	(1,490)	194	–	(1,296)
Intangible assets and goodwill	19,674	1,504	–	21,178
Derivative obligations	120	24	(89)	55
Timing of reserve deductibility	(585)	(99)	–	(684)
	$ 17,383	$ 1,836	$ (89)	$ 19,130

	As at January 30, 2021	Expense (Recovery)	Other Comprehensive Income	Adjustment on amendment of IFRS 16 (note 2)	As at January 29, 2022
Deferred financing costs	$ 157	$ (83)	$ –	$ –	$ 74
Fixed assets	(686)	276	–	–	(410)
Right-of-use assets and lease liabilities	(1,364)	(157)	–	31	(1,490)
Intangible assets and goodwill	17,898	1,776	–	–	19,674
Derivative obligations	(114)	27	207	–	120
Timing of reserve deductibility	–	(585)	–	–	(585)
	$ 15,891	$ 1,254	$ 207	$ 31	$ 17,383

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

16. Interest Expense

The Company's interest expense comprises the following:

	January 28, 2023	January 29, 2022
Interest on lease liabilities (note 9)	$ 4,771	$ 5,360
Interest on Credit Facilities (note 10)	3,688	2,891
Amortization of deferred financing fees (note 10)	560	610
Interest revenue	(263)	(53)
Total interest expense	**$ 8,756**	**$ 8,808**

17. Contingencies

During the normal course of business, the Company, from time to time, becomes involved in various claims and legal proceedings. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the Company's financial position.

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

18. Personnel expenses

	January 28, 2023	January 29, 2022
Wages and salaries	$ 50,278	$ 43,389
Benefits and other incentives	9,456	10,704
Total personnel expenses	**$ 59,734**	**$ 54,093**

During the period ended January 28, 2023, personnel expenses of $59,734 did not include the impact of any wage subsidies (note 19) (period ended January 29, 2022 - $54,093).

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

19. 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 49.5% of the total issued and outstanding Shares and the Founders, through their wholly-owned entities, beneficially own approximately 12.7% of the total issued and outstanding Shares. All transactions described below are in the normal course of business and have been accounted for at their exchange value.

(a) Transactions with shareholders

The Company leases the building for its leather factory from companies that are under common control of the Founders. The rent paid on this property was $284 for both the periods ended January 28, 2023, and January 29, 2022.

(b) Transactions with key management personnel

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

	January 28, 2023	January 29, 2022
Salaries, benefits and incentives, and consulting fees	$ 4,129	$ 4,778
Management share-based compensation	345	649
Director fees	648	648
Total	**$ 5,122**	**$ 6,075**

On February 8, 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 was to be repaid at the earlier of February 7, 2022 (six years from the inception of the loan) and upon a liquidity sale of the Company. Interest accrued at a rate of 4.0% per annum and was payable at the start of each calendar year following the date of the loan. Unpaid interest could be deemed paid by increasing the principal amount outstanding. The officer resigned from the Company effective August 9, 2019. As at January 28, 2023, the outstanding balance on the loan was $nil (January 29, 2022 – $633) as the loan was repaid on February 7, 2022.

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

20. Government grants

In response to the negative economic impact of COVID-19, the Government of Canada approved legislation to assist businesses adversely impacted by COVID-19. The Company determined that it qualified for the Canadian Emergency Wage Subsidy ("CEWS") program and the Canadian Emergency Rent Subsidy ("CERS") program during fiscal 2021. The CEWS and CERS programs ended on October 23, 2021.

During the period ended January 28, 2023, the Company recognized $434 as a reduction to cost of goods sold pertaining to payroll subsidies previously received under the CEWS program in fiscal 2021 and initially recorded as a reduction to capitalized inventory manufacturing labour costs (period ended January 29, 2022 – $1,400).

For the period ended January 29, 2022, the Company determined that it qualified for labour assistance under the CEWS program and recognized $5,932 as a reduction to the eligible remuneration expenses. For the period ended January 29, 2022, the Company determined that it qualified for rent relief subsidies under the CERS program and recognized $1,967 against certain property costs within selling, general and administrative expenses.

The following table provides the impacts of the recognized CEWS and CERS within the Company's consolidated financial statements for the periods ended January 28, 2023 and January 29, 2022:

For the period ended January 28, 2023	CEWS	CERS	Total
Reductions to:			
Selling, general and administrative expenses	$ –	$ –	$ –
Cost of goods sold	–	–	–
Labour costs capitalized in inventory	–	–	–
Government subsidies qualified for in period	$ –	$ –	$ –
Reduction to cost of goods from government subsidies previously capitalized in inventory	$ 434	–	$ 434
Total impacts of government subsidies	**$ 434**	**$ –**	**$ 434**

For the period ended January 29, 2022	CEWS	CERS	Total
Reductions to:			
Selling, general and administrative expenses	$ 4,773	$ 1,967	$ 6,740
Cost of goods sold	638	–	638
Labour costs capitalized in inventory	521	–	521
Government subsidies qualified for in period	$ 5,932	$ 1,967	$ 7,899
Reduction to cost of goods from government subsidies previously capitalized in inventory	$ 1,400	–	$ 1,400
Total impacts of government subsidies	**$ 7,332**	**$ 1,967**	**$ 9,299**

For the period ended January 28, 2023, the Company has recognized $434 of government grants in the consolidated statement of net income (period ended January 29, 2022 – $8,778).

21. Subsequent Events

On April 4, 2023, the Company amended its Credit Agreement to extend the original maturity date of September 6, 2024 to September 6, 2026. The amendment does not reflect any changes to the size of the existing Credit Facilities or covenant limits. 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.

In March 2023, the Company appointed Joey Gollish, founder of fashion label known as “Mr. Saturday”, as Creative Director in Residence. As part of this arrangement, Roots has made a minority equity investment in Saturday Industries Limited and has agreed to issue, subject to TSX approval, 100,000 common share purchase warrants (“Warrants”) to Saturday Industries Limited. Each Warrant will be exercisable for one Share.