ROOTS CORPORATION

Interim Condensed Consolidated Financial Statements

For the 13 and 26 week periods ended July 29, 2023 and July 30, 2022
In Canadian dollars
(Unaudited)

NOTICE TO READER

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

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

ROOTS CORPORATION

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

	Note	July 29, 2023	July 30, 2022	January 28, 2023
Assets				
Current assets				
Cash		$ 5,410	$ 8,529	$ 31,921
Accounts receivable	10	6,967	7,734	5,684
Inventories		55,869	54,783	54,990
Income tax receivable		1,006	–	–
Prepaid expenses		4,791	4,447	3,421
Derivative assets	4, 10	208	304	139
Total current assets		74,251	75,797	96,155
Non-current assets:				
Other assets	9	300	–	–
Fixed assets		36,826	41,161	39,170
Right-of-use assets		58,382	64,688	62,484
Intangible assets		185,026	187,328	186,177
Goodwill		7,906	7,906	7,906
Total non-current assets		288,440	301,083	295,737
Total assets		**$ 362,691**	**$ 376,880**	**$ 391,892**
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness	10	$ 831	$ –	$ –
Accounts payable and accrued liabilities	10	32,006	32,304	38,414
Deferred revenue		5,252	5,665	6,049
Income taxes payable		–	61	3,098
Current portion of lease liabilities	10	21,903	22,472	22,858
Current portion of long-term debt	5, 10	4,449	4,613	4,613
Total current liabilities		64,441	65,115	75,032
Non-current liabilities:				
Deferred tax liabilities		19,772	18,274	19,130
Long-term portion of lease liabilities	10	53,618	61,253	57,575
Long-term debt	5, 10	51,051	54,139	52,113
Total non-current liabilities		124,441	133,666	128,818
Total liabilities		**188,882**	**198,781**	**203,850**
Shareholders' equity:				
Share capital	6, 8	186,033	195,010	189,338
Contributed surplus	8	4,521	4,312	4,380
Accumulated other comprehensive income		153	224	102
Retained earnings (deficit)		(16,898)	(21,447)	(5,778)
Total shareholders' equity		173,809	178,099	188,042
Total liabilities and shareholders' equity		**$ 362,691**	**$ 376,880**	**$ 391,892**

On behalf of the Board of Directors:

"Erol Uzumeri" Director

"Richard P. Mavrinac" Director

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

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

For the 13 and 26 week periods ended July 29, 2023 and July 30, 2022

	Note		July 29, 2023 (13 weeks)		July 30, 2022 (13 weeks)		July 29, 2023 (26 weeks)		July 30, 2022 (26 weeks)
Sales		$	49,404	$	47,801	$	90,900	$	90,873
Cost of goods sold			21,963		19,455		38,978		36,309
Gross profit			27,441		28,346		51,922		54,564
Selling, general and administrative expenses	8, 12		32,338		30,625		65,344		61,931
Income (loss) before interest expense and income taxes expense (recovery)			(4,897)		(2,279)		(13,422)		(7,367)
Interest expense			2,303		2,076		4,572		4,061
Income (loss) before income taxes			(7,200)		(4,355)		(17,994)		(11,428)
Income taxes expense (recovery)	11		(1,866)		(1,120)		(4,694)		(2,932)
Net income (loss)		$	(5,334)	$	(3,235)	$	(13,300)	$	(8,496)
Basic earnings (loss) per Share	7	$	(0.13)	$	(0.08)	$	(0.32)	$	(0.20)
Diluted earnings (loss) per Share	7	$	(0.13)	$	(0.08)	$	(0.32)	$	(0.20)

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

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

For the 13 and 26 week periods ended July 29, 2023 and July 30, 2022

	Note	July 29, 2023 (13 weeks)	July 30, 2022 (13 weeks)	July 29, 2023 (26 weeks)	July 30, 2022 (26 weeks)
Net income (loss)		$ (5,334)	$ (3,235)	$ (13,300)	$ (8,496)
Other comprehensive income (loss), net of taxes:					
Items that may be subsequently reclassified to profit or loss:					
Effective portion of changes in fair value of cash flow hedges	4,9	(456)	72	268	203
Gain (cost) of hedging excluded from cash flow hedges	4,9	59	(20)	60	(40)
Tax impact of cash flow hedges	4,9	(73)	(14)	(86)	(43)
Total other comprehensive income (loss)		(470)	38	242	120
Total comprehensive income (loss)		$ (5,804)	$ (3,197)	$ (13,058)	$ (8,376)

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

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

For the 26 week periods ended July 29, 2023 and July 30, 2022

July 29, 2023 (26 weeks)	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 28, 2023		**$ 189,338**	**$ 4,380**	**$ (5,778)**	**$ 102**	**$ 188,042**
Net income (loss)		–	–	(13,300)	–	(13,300)
Net gain from change in fair value of cash flow hedges, net of income taxes	4,10	–	–	–	242	242
Transfer of net realized gain on cash flow hedges to inventories, net of income taxes		–	–	–	(191)	(191)
Share-based compensation	8	–	233	–	–	233
Issuance of Shares	6	318	(92)	–	–	226
Purchase of Shares	6	(3,623)	–	2,180	–	(1,443)
Balance, July 29, 2023		**$ 186,033**	**$ 4,521**	**$ (16,898)**	**$ 153**	**$ 173,809**

July 30, 2022 (26 weeks)	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 31, 2021		**$ 195,070**	**$ 4,107**	**$ (13,466)**	**$ 346**	**$ 186,057**
Net income (loss)		–	–	(8,496)	–	(8,496)
Net gain from change in fair value of cash flow hedges, net of income taxes	4,10	–	–	–	120	120
Transfer of net realized gain on cash flow hedges to inventories, net of income taxes		–	–	–	(242)	(242)
Share-based compensation	8	–	312	–	–	312
Issuance of Shares	6	133	(107)	–	–	26
Purchase of Shares	6	(193)	–	515	–	322
Balance, July 30, 2022		**$ 195,010**	**$ 4,312**	**$ (21,447)**	**$ 224**	**$ 178,099**

See accompanying notes to unaudited interim condensed consolidated financial statements.

ROOTS CORPORATION

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

For the 26 week periods ended July 29, 2023 and July 30, 2022

	Note		July 29, 2023 (26 weeks)		July 30, 2022 (26 weeks)
Cash provided by (used in):					
Operating activities:					
Net income (loss)		$	(13,300)	$	(8,496)
Items not involving cash:					
Depreciation and amortization			14,888		14,378
Share-based compensation expense	8		233		312
Rent concessions related to practical expedient			–		(24)
Gain on lease modification			–		(677)
Interest expense			4,572		4,061
Income taxes expense (recovery)	11		(4,694)		(2,932)
Interest paid			(2,034)		(1,386)
Payment of interest on lease liabilities			(2,294)		(2,396)
Income taxes refund (paid)			1,214		(2,774)
Change in non-cash operating working capital:					
Accounts receivable			(1,283)		(1,117)
Inventories			(879)		(13,527)
Prepaid expenses			(1,370)		(478)
Accounts payable and accrued liabilities			(3,797)		5,568
Deferred revenue			(797)		(673)
			(9,639)		(10,161)
Financing activities					
Proceeds from Revolving Credit Facility	5		3,500		–
Long-term debt financing costs	5		(763)		–
Repayment of Term Credit Facility	5		(4,207)		(2,307)
Proceeds from issuance of Shares	6		226		26
Purchase of Shares	6		(4,054)		(1,249)
Payment of principal on lease liabilities, net of tenant allowance			(9,706)		(9,173)
			(15,004)		(12,703)
Investing activities					
Additions to fixed assets			(2,299)		(2,768)
Additions to right-of-use assets			(100)		–
Investment in other assets	9		(300)		–
			(2,699)		(2,768)
Decrease in cash			(27,342)		(25,632)
Cash and bank indebtedness, beginning of period			31,921		34,161
Cash and bank indebtedness, end of period		**$**	**4,579**	**$**	**8,529**

See accompanying notes to unaudited interim condensed consolidated financial statements.

1. Nature of operations and basis of presentation

Nature of operations

Established in 1973, Roots is a global lifestyle brand. Starting from a small cabin in northern Canada, Roots has become a global brand, which as of July 29, 2023, operated 105 corporate retail stores and 13 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.

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 interim condensed 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".

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

Basis of presentation

(a) Statement of compliance:

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and the accounting policies described in the Company's audited consolidated financial statements as at and for the 52 week period ended January 28, 2023 (the "annual financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). However, select explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the annual financial statements. These interim financial statements were authorized for issue by the Company's Board of Directors on September 11, 2023.

(b) Basis of measurement:

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

(c) Operating Environment:

The Company continues to be impacted by higher inflation in the markets in which it operates, including through increased costs of inventory, third-party services, and personnel expenses. Central banks have maintained higher 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 in the short-term. 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.

(d) Use of estimates and judgements:

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

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

2. Significant accounting policies

The significant accounting policies as disclosed in the annual financial statements for the year ended January 28, 2023 have been applied consistently in the preparation of these interim financial statements.

Recently adopted accounting standards and policies:

Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and included in Other Assets. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income (loss). When an investment is derecognized, the accumulated gain or loss in other comprehensive income (loss) is transferred to profit or loss.

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 Company adopted the amendments to IAS 8 effective January 29, 2023. The adoption of amendments to IAS 8 did not have a material impact on the interim 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 Company adopted the amendments to IAS 1 and IFRS Practise Statement 2 effective January 29, 2023. The adoption of amendments to IAS 1 and IFRS Practise Statement 2 did not have a material impact on the interim financial statements.

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.

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.

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

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

			July 29, 2023 (13 weeks)			July 30, 2022 (13 weeks)
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	$ 37,103	$ 12,301	$ 49,404	$ 38,462	$ 9,339	$ 47,801
Cost of goods sold	13,830	8,133	21,963	13,863	5,592	19,455
Gross profit	23,273	4,168	27,441	24,599	3,747	28,346
Selling, general and administrative expenses(1)			32,338			30,625
Income (Loss) before interest expense and income taxes expense (recovery)			(4,897)			(2,279)
Interest expense(1)			2,303			2,076
Income (Loss) before income taxes expense (recovery)			$ (7,200)			$ (4,355)

			July 29, 2023 (26 weeks)			July 30, 2022 (26 weeks)
	Direct-to-Consumer	Partners and Other	Total	Direct-to-Consumer	Partners and Other	Total
Sales	$ 72,509	$ 18,391	$ 90,900	$ 75,839	$ 15,034	$ 90,873
Cost of goods sold	27,546	11,432	38,978	27,708	8,601	36,309
Gross profit	44,963	6,959	51,922	48,131	6,433	54,564
Selling, general and administrative expenses(1)			65,344			61,931
Income (Loss) before interest expense and income taxes expense (recovery)			(13,422)			(7,367)
Interest expense(1)			4,572			4,061
Income (Loss) before income taxes expense (recovery)			$ (17,994)			$ (11,428)

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

4. Financial instruments

The Company's financial instruments consist of cash, accounts receivable, other assets, accounts payable and accrued liabilities, long-term debt, derivative assets and derivative obligations.

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, which is measured at amortized cost using the effective interest method.

The fair value of other assets, which consist of common shares of Saturday Industries Limited ("Mr. Saturday"), are determined using valuation techniques based on unobservable inputs. This has been determined using Level 3 of the fair value hierarchy.

The fair values of derivative assets and derivative obligations resulting from foreign exchange forward contracts ("forward contracts") and interest rate swap contracts ("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 13 and 26 week periods ended July 29, 2023 and July 30, 2022.

The Company enters into forward contracts from time to time to hedge its exposure for a portion of purchases denominated in U.S. dollars. As at July 29, 2023, the Company had outstanding forward contracts to buy US$23,855 (July 30, 2022 – US$22,136, January 28, 2023 – US$26,790) at an average forward rate of 1.34 (July 30, 2022 – 1.27, January 28, 2023 – 1.32). As at July 29, 2023, the forward contracts have maturity dates between July 31, 2023 and July 8, 2024.

For the 13 week periods ended July 29, 2023 and July 30, 2022, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a loss of $796 (net of tax – $720) and a gain of $72 (net of tax – $52), respectively, which were recorded in other comprehensive income (loss).

For the 26 week periods ended July 29, 2023 and July 30, 2022, the effective portion of changes in the fair value of all matured forward contracts and outstanding forward contracts resulted in a loss of $113 (net of tax – $38) and a gain of $203 (net of tax – $149), respectively, which were recorded in other comprehensive income (loss).

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. As at July 29, 2023, the Company had outstanding swap contracts to affix its bankers' acceptance rate at 4.4% per annum, through September 2024 on

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

$40,000 of its long-term debt under its Credit Facilities (January 28, 2023 - $40,000, through September 2024).

For the 13 week and 26 periods ended July 29, 2023, the effective portion of changes in the fair value of interest rate swap contracts resulted in a gain of $340 (net of tax - $250) and a gain of $381 (net of tax - $280), respectively, which were recorded in other comprehensive income (loss). There were no interest rate swap contracts during the 13 and 26 week periods ended July 30, 2022.

5. Long-term debt

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

On April 4, 2023, the Company amended and restated its Credit Agreement to extend the maturity from September 6, 2024 to September 6, 2026. 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") and transitioned from LIBOR as the U.S benchmark to the secured overnight financing rate ("SOFR"). There were no changes to the $60,000 Revolving Credit Facility limit or $10,000 swing loan as part of the amendment.

The following table reconciles the changes in cash flows from financing activities for long-term debt for the 26 week periods ended July 29, 2023 and July 30, 2022:

	July 29, 2023 (26 weeks)	July 30, 2022 (26 weeks)
Long-term debt, beginning of period	$ 56,726	$ 60,779
Proceeds from Revolving Credit Facility	3,500	–
Long-term debt repayments of Term Credit Facility	(4,207)	(2,307)
Long-term debt financing costs	(763)	–
Total cash flow from long-term debt financing activities	(1,470)	(2,307)
Amortization of debt financing costs	244	280
Total non-cash long-term debt activity	244	280
Total long-term debt, end of period (1)	**$ 55,500**	**$ 58,752**

(1) Total long-term debt of $55,500 at July 29, 2023 is net of $1,428 unamortized long-term debt financing costs. As at July 30, 2022, total long-term debt of $58,752 is net of $1,189 unamortized long-term debt financing costs.

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

Current portion of long-term debt	4,449	4,613
Long-term portion of long-term debt	51,051	54,139
	$ 55,500	$ 58,752

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

6. Share capital

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

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

As at July 29, 2023, there were 40,292,913 Shares (July 30, 2022 – 41,716,564, January 28, 2023 – 42,054,061 Shares) and nil preferred shares (July 30, 2022 – nil preferred shares, January 28, 2023 – nil preferred shares) issued and outstanding. All issued Shares are fully paid.

There were no dividends or distributions declared during the 13 and 26 week periods ended July 29, 2023 and July 30, 2022.

The following table provides a summary of changes to the Company's share capital for the 26 week periods ended July 29, 2023 and July 30, 2022:

	26 week period ended July 29, 2023			26 week period ended July 30, 2022		
	Number of Shares		Share capital	Number of Shares		Share capital
Outstanding Shares, beginning of period	41,461,863	$	189,338	42,054,061	$	195,070
Issuance of Shares	166,668		318	39,671		133
Purchase of Shares[1]	(1,335,618)		(3,623)	(377,168)		(193)
Outstanding Shares, end of period	40,292,913	$	186,033	41,716,564	$	195,010

(1) Increase to share capital includes $2,611 net impact from obligations to repurchase shares under the ASPP ($4,481 reversal from prior period less $1,870 current obligation), less $6,234 for the purchase of 1,335,618 shares for cancellation.

During the 26 week period ended July 29, 2023, 166,668 Shares (26 week period ended July 30, 2022 – 39,671 Shares) were issued from treasury as a result of the exercise of 166,668 stock options (26 week period ended July 30, 2022 – 18,334 stock options) and nil restricted share units ("RSUs") (26 week period ended July 30, 2022 – 21,337 RSUs) granted under the Company's Omnibus Equity Incentive Plan (the "Omnibus Plan"). See Note 8.

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

Share Purchase

On December 9, 2022, 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 2,119,667 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. As at July 29, 2023, the Company may purchase up to 549,989 Shares under the current NCIB.

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 July 29, 2023, an obligation of $1,870 (January 28, 2023 - $4,481) was recognized in accounts payable and accrued liabilities, and recorded against share capital, for the potential purchase of Shares under the ASPP.

During the 26 week period ended July 29, 2023, 1,335,618 Shares were purchased for cancellation for $4,054, resulting in a decrease to share capital of $6,234 and an increase to retained earnings (deficit) of $2,180.

During the 26 week period ended July 30, 2022, 377,168 Shares were purchased for cancellation for $1,249, resulting in a decrease to share capital of $1,764 and an increase to retained earnings (deficit) of $515.

7. Earnings (Loss) per Share

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

	July 29, 2023 (13 weeks)	July 30, 2022 (13 weeks)	July 29, 2023 (26 weeks)	July 30, 2022 (26 weeks)
Weighted average Shares outstanding	40,815,574	41,704,606	41,089,394	41,786,480
Dilutive share-based compensation	–	–	–	–
Dilutive weighted average Shares outstanding	40,815,574	41,704,606	41,089,394	41,786,480

	July 29, 2023 (13 weeks)	July 30, 2022 (13 weeks)	July 29, 2023 (26 weeks)	July 30, 2022 (26 weeks)
Net income (loss)	$ (5,334)	$ (3,235)	$ (13,300)	$ (8,496)
Basic and dilutive earnings (loss) per Share	$ (0.13)	$ (0.08)	$ (0.32)	$ (0.20)

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

For the 13 and 26 week periods ended July 29, 2023 and July 30, 2022, 2,398,405 and 2,328,405 stock options, respectively, were not included in the calculation of diluted EPS as they were anti-dilutive.

For the 13 and 26 week periods ended July 29, 2023 and July 30, 2022, 15,985 RSUs were not included in the calculation of basic or diluted EPS as they were anti-dilutive.

For the 13 and 26 week periods ended July 29, 2023, 100,000 common share purchase warrants ("Warrants") were not included in the calculation of diluted EPS as they were anti-dilutive. There were no Warrants during the 13 and 26 week periods ended July 30, 2022.

8. Share-based compensation

Under the various share-based compensation plans, the Company may grant stock options or other security-based instruments to buy up to 3,564,647 Shares. As at July 29, 2023, 2,398,405 stock options, 100,000 Warrants and 15,985 RSUs were granted and outstanding.

The following is a summary of the Company's stock option and warrants activity for the 13 and 26 week periods ended July 29, 2023 and July 30, 2022:

July 29, 2023 (13 weeks)	Legacy Employee Option Plan		Omnibus Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of Warrants	Weighted average exercise price	Number of options & Warrants	Weighted average exercise price
Outstanding options, beginning of period(1)	214,186	$ 6.26	2,204,219	$ 2.89	100,000	$ 2.98	2,518,405	$ 3.18
Forfeited	–	–	(20,000)	3.62	–	–	(20,000)	3.62
Outstanding options, end of period	214,186	$ 6.26	2,184,219	$ 2.88	100,000	$ 2.98	2,498,405	$ 3.17
Exercisable options, end of period	214,186	$ 6.26	1,374,390	$ 2.82	–	–	1,588,576	$ 3.28

(1) The outstanding Warrants were issued against the Omnibus plan, reducing the available shares to issue.

July 30, 2022 (13 weeks)	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	214,186	$ 6.26	2,114,219	$ 2.77	2,328,405	$ 3.09
Outstanding options, end of period	214,186	$ 6.26	2,114,219	$ 2.77	2,328,405	$ 3.09
Exercisable options, end of period	214,186	$ 6.26	1,110,725	$ 2.79	1,324,911	$ 3.35

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

July 29, 2023 (26 weeks)	Legacy Employee Option Plan		Omnibus Plan		Omnibus Plan		Total	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of Warrants	Weighted average exercise price	Number of options & Warrants	Weighted average exercise price
Outstanding options, beginning of period	214,186	$ 6.26	2,080,887	$ 2.76	–	$ –	2,295,073	$ 3.09
Granted(1)	–	–	350,000	3.00	100,000	2.98	450,000	3.00
Exercised	–	–	(166,668)	1.35	–	–	(166,668)	1.35
Forfeited	–	–	(80,000)	3.62	–	–	(80,000)	3.62
Outstanding options, end of period	214,186	$ 6.26	2,184,219	$ 2.88	100,000	$ 2.98	2,498,405	$ 3.17
Exercisable options, end of period	214,186	$ 6.26	1,374,390	$ 2.82	–	–	1,588,576	$ 3.28

(1) The granted Warrants were issued against the Omnibus plan, reducing the available shares to issue.

July 30, 2022 (26 weeks)	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
Exercised	–	–	(18,334)	1.41	(18,334)	1.41
Forfeited	(107,096)	6.26	(77,628)	5.18	(184,724)	5.80
Outstanding options, end of period	214,186	$ 6.26	2,114,219	$ 2.77	2,328,405	$ 3.09
Exercisable options, end of period	214,186	$ 6.26	1,110,725	$ 2.79	1,324,911	$ 3.35

The fair value of stock options granted during the 13 and 26 week periods ended July 29, 2023 were $nil (13 week period ended July 30, 2022 - $nil) and $394 (26 week period ended July 30, 2022 - $nil), respectively.

During the 26 week period ended July 29, 2023, the Company issued 100,000 Warrants to Mr. Saturday as part of the Company's appointment of Mr. Saturday and its principal Joey Gollish as Creative Director in Residence. The Warrants are subject to adjustment under customary anti-dilution provisions and time vesting conditions and will expire ten years from the date of issuance. Each Warrant can be exercised to purchase one Share at a price of $2.98 per Share. The fair value of the Warrants granted were $113.

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

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

	July 29, 2023 (26 weeks)	July 30, 2022 (26 weeks)
Expected volatility	33.0% – 33.6%	N/A
Share price at grant date	$3.00 – $3.00	N/A
Exercise price	$2.98 – $3.00	N/A
Risk-free interest rate	2.77% – 2.86%	N/A
Expected term	5.5 years – 6.5 years	N/A
Fair value per option	$1.09 – $1.17	N/A

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

The following is a summary of the Company's RSU and deferred share unit ("DSU") activity for the 13 and 26 week periods ended July 29, 2023 and July 30, 2022:

July 29, 2023 (13 weeks)	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	–	809,224	15,985	809,224
Granted	–	–	30,222	–	30,222
Units, end of period	15,985	–	839,446	15,985	839,446

July 30, 2022 (13 weeks)	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
Exercised	–	(21,337)	–	(21,337)	–
Units, end of period	15,985	–	549,948	15,985	549,948

July 29, 2023 (26 weeks)	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	–	779,695	15,985	779,695
Granted	–	–	59,751	–	59,751
Units, end of period	15,985	–	839,446	15,985	839,446

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

July 30, 2022 (26 weeks)	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
Exercised	–	(21,337)	–	(21,337)	–
Units, end of period	15,985	–	549,948	15,985	549,948

There were no RSUs granted during the 13 and 26 week periods ended July 29, 2023 and July 30, 2022. There were 15,985 RSUs vested as at July 29, 2023 (July 30, 2022 – 15,985).

The fair value of DSUs granted during the 13 and 26 week periods ended July 29, 2023 were $90 and $180, respectively (13 and 26 week periods ended July 30, 2022 - $nil).

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

The grant date fair value of share-based compensation awards granted to employees is recognized as share-based compensation expense, recorded in selling, general and administrative expenses with a corresponding increase to contributed surplus, over the period that the employees unconditionally become entitled to the awards. For the 13 and 26 week periods ended July 29, 2023, the Company recorded share-based compensation expense of $134 and $233, respectively (13 and 26 week periods ended July 30, 2022 - $112 and $312, respectively).

9. Other assets

During the 26 week period ended July 29, 2023, the Company made a minority equity investment in Mr. Saturday by acquiring common shares in Mr. Saturday (“Mr. Saturday Shares”), for a total of $300, as part of the Company’s appointment of Mr. Saturday and its principal Joey Gollish as Creative Director in Residence.

The Mr. Saturday Shares have been classified as available-for-sale financial instruments. As such, the Mr. Saturday Shares are recorded at their fair value with changes in fair value recorded in other comprehensive income (loss). As at July 29, 2023, the Mr. Saturday Shares had a fair value of $300, resulting in no gain or loss for the 13 or 26 week period ended July 29, 2023.

10. Financial risk management

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

(a) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company prepares cash flow forecasts to ensure it has sufficient funds through operations and access to debt facilities to meet its financial obligations. The Company maintains the Credit Facilities, as described in Note 5, allowing it to access funds for operations. Continued compliance with the covenants under the Credit Facilities is dependent on the Company achieving financial forecasts. Market conditions are difficult to predict and there is no 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.

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

The contractual maturities of the Company's current and long-term financial liabilities as at July 29, 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						
Bank indebtedness	$ 831	$ 831	$ –	$ 831	$ –	$ –
Accounts payable and accrued liabilities	32,006	32,006	32,006	–	–	–
Long-term debt	55,500	56,928	4,449	52,479	–	–
Lease liabilities	75,521	87,296	22,673	34,624	21,374	8,625
	$ 163,858	$ 177,061	$ 59,128	$ 87,934	$ 21,374	$ 8,625

(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 (loss) for the 13 and 26 week periods ended July 29, 2023 by $484 (13 and 26 week periods ended July 30, 2022 – $466), 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. A five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables remain constant, would have changed other comprehensive income (loss) for the 13 and 26 week periods ended July 29, 2023 by $1,550 (13 and 26 week periods ended July 30, 2022 – $1,404), 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. During the 13 and 26 week periods ended July 29, 2023, the Company hedged its exposure to the volatility of the interest rate on $40,000 of its long-term debt under its Credit Facilities (13 and 26 week periods ended July 30, 2022 - $nil), reducing the impact of market fluctuations in interest rates on pre-tax net income (loss). A one percentage point change in the applicable interest rate would have changed pre-tax net income (loss) for the 13 and 26 week periods ended July 29, 2023 by $40 and $84, respectively (13 and 26 week period ended July 30, 2022 – $153 and $308, respectively).

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

As at July 29, 2023, the Company's maximum exposure to credit risk for accounts receivable financial instruments was $6,967 (July 30, 2022 – $7,734).

(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 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 July 29, 2023, the Company was in compliance with its covenants under the Credit Facilities.

11. Income taxes expense (recovery)

Income taxes expense (recovery) for the 13 week period ended July 29, 2023 was $(1,866) (13 week period ended July 30, 2022 – $(1,120)), resulting in an effective income taxes recovery rate for the 13 week period ended July 29, 2023 of 25.9% (13 week period ended July 30, 2022 – 25.7%). Income taxes expense (recovery) for the 26 week period ended July 29, 2023 was $(4,694) (26 week period ended July 30, 2022 – $(2,932)), resulting in an effective income taxes recovery rate for the 26 week period ended July 29, 2023 of 26.1% (26 week period ended July 30, 2022 – 25.7%).

The increase in the effective tax recovery rate for the 13 and 26 week periods ended July 29, 2023 as compared to the 13 and 26 week periods ended July 30, 2022 were primarily attributable to lower non-deductible share-based compensation expenses.

12. Related party transactions

The Company's related parties include key management personnel and key shareholders of the Company, including other entities under common control. Investment funds managed by Searchlight Capital Partners, L.P. ("Searchlight") beneficially own approximately 50.9% of the total issued and outstanding Shares. Shareholders of a company formerly known as Roots Canada Ltd., through their wholly-owned entities (the "Founders"), beneficially own approximately 13.0% 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 the 13 and 26 week periods ended July 29, 2023, the rent expense that relates to the lease of this property were $71 and $142, respectively, which were recorded in selling, general and administrative expenses (13 and 26 week periods ended July 30, 2022 - $71 and $142, respectively).