



ROOTS CORPORATION

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

(Third Quarter Ended October 28, 2023)

The following Management's Discussion and Analysis ("**MD&A**") dated December 5, 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 13 week and 39 week periods ended October 28, 2023. This MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements for the 13 week and 39 week periods ended October 28, 2023, including the related notes thereto (the "**Interim Financial Statements**"), and our audited consolidated financial statements for the 52 week fiscal year ended January 28, 2023, including the related notes thereto (the "**Annual Financial Statements**") and the related Management's Discussion and Analysis.

BASIS OF PRESENTATION

Our Interim Financial Statements and 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 in our Interim Financial Statements and Annual Financial Statements, as the case may be. All amounts are presented in thousands of Canadian dollars, unless otherwise indicated.

All references in this MD&A to "**Q3 2023**" are to our fiscal quarter for the 13 week period ended October 28, 2023, and all references to "**Q3 2022**" are to our fiscal quarter for the 13 week period ended October 29, 2022. All references in this MD&A to "**YTD 2023**" are to the 39 week period ended October 28, 2023, and all references to "**YTD 2022**" are to the 39 week period ended October 29, 2022. All references in this MD&A to "**F2023**" are to the 53 week fiscal year ending February 3, 2024, all references to "**F2022**" are to the 52 week fiscal year ended January 28, 2023, and all references to "**F2021**" are to the 52 week fiscal year ended January 29, 2022.

The Interim Financial Statements and this MD&A were reviewed by our Audit Committee and approved by our Board of Directors (the "**Board**") on December 5, 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 (loss) or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including "Adjusted DTC Gross Profit", "EBITDA", "Adjusted EBITDA", "Adjusted Net Income (Loss)", and "Adjusted Net Income (Loss) per Share". This MD&A also refers to "Comparable Sales Growth (Decline)", a commonly used metric in our industry but that may be calculated differently compared to other companies. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures.

Management also uses non-IFRS measures to exclude the impact of certain expenses and income that management does not believe reflect the Company's underlying operating performance and that make comparisons of underlying financial performance between periods difficult. Management also uses non-IFRS measures to measure our core financial and operating performance for business planning purposes and as a component in the determination of incentive compensation for salaried employees. 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.

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

"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 (loss).

"Adjusted Net Income (Loss)" is a non-IFRS measure and is defined as net income (loss), 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 (Loss) also excludes the impact of IFRS 16 and includes rent expense, a significant expense for our retail stores. We believe that Adjusted Net Income (Loss) 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 (Loss) is net income (loss).

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

“Comparable Sales Growth (Decline)” is a retail industry metric used to compare the percentage change in sales derived from mature stores and eCommerce, in a certain period, compared to the 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 changes to our sales 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 considered a supplementary financial measure under applicable securities law and may be calculated differently compared to other companies. 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 circumstances that make comparisons of year-over-year results less meaningful. In malls where we have opened secondary pop-up locations, the sales from both the permanent and pop-up stores will be excluded from the calculation of Comparable Sales Growth (Decline) until both stores have been open for at least 52 weeks. 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.

Due to the impacts that COVID-19 had on the apparel retail operating environment, including periods of temporary store closures, phased re-openings and retail store operating limitations, the Company did not report Comparable Sales Growth (Decline) during F2021 and F2022. With the impacts of COVID-19 largely lapsed, the Company resumed reporting Comparable Sales Growth (Decline) beginning the 13 week period ended April 29, 2023 (“**Q1 2023**”).

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 October 28, 2023, operated 106 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.

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

Macroeconomic Conditions

The Company continues to be impacted by higher inflation in the markets in which we operate, including through increased costs of inventory, third-party services, and personnel expenses which are expected to persist through the remainder of F2023.

Central banks have continued to maintain 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. The elevated interest rates have also increased the interest paid on debt of the Company.

Global Supply Chain

Although the disruptions in our global supply chain have largely normalized in YTD 2023, we were negatively impacted by the elevated freight cost incurred during comparable F2022 quarters.

During Q3 2023, we recorded \$20 of air freight costs in cost of sales (Q3 2022 – \$1,347). At the end of Q3 2023, there remains \$115 of capitalized air freight costs that we expect to record in cost of sales, as the goods sell through in the remainder of F2023.

Investment in Saturday Industries Limited

During Q1 2023, the Company appointed Joey Gollish as Creative Director in Residence for a period expected to extend through 2025, pursuant to the terms of a Creative Director Residency Agreement. Mr. Gollish is the founder and creative director of Saturday Industries Limited (“**Mr. Saturday**”), an acclaimed fashion label known as “Mr. Saturday”, who will continue to helm its design and creative direction during this period. In connection with this arrangement, the Company issued 100,000 common share purchase warrants (the “**Warrants**”) to Mr. Saturday, on a private placement basis. In addition, the Company made a minority equity investment in Mr. Saturday.

Real Estate

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

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Number of stores, beginning of period	107	108	109	110	109
New stores	1	–	1	–	1
Permanently closed stores	–	(1)	(2)	(1)	–
Number of stores, end of period	108	107	108	109	110
Stores renovated or relocated	2	2	1	1	2
Short-term pop-up locations, in addition to above store count	13	13	12	12	13

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.

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 distribution centre. Being able to fulfill centrally enables us to more effectively scale and execute our omni-channel strategy. Conversely, any failure of our facility 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 formalized and analytical approach to product line development and our distribution channel upgrades, we are 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 risk 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%
Total fiscal year	<u>100%</u>

Weather

Our corporate retail stores could be adversely impacted by extreme weather conditions in regions in which they operate. For example, severe or abnormal snowfall, 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 disruptions in our ability to operate in, and/or source from, 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.

During Q3 2023, our DTC and Partners and Other segments contributed 82.2% and 17.8% of our sales, respectively (Q3 2022 – 81.5% and 18.5% of our sales, respectively). During YTD 2023, the DTC and Partners and Other segments represented 80.8% and 19.2% of our sales, respectively (YTD 2022 – 82.6% and 17.4% of our sales, respectively).

SUMMARY OF FINANCIAL PERFORMANCE

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

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

CAD \$000s (except per Share data)	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Statement of Net income (loss) Data:				
Sales	63,534	69,782	154,434	160,655
Gross profit	37,118	39,428	89,040	93,992
Gross margin	58.4%	56.5%	57.7%	58.5%
Selling, general and administrative expenses	33,788	33,830	99,132	95,761
Net income (loss)	519	2,209	(12,781)	(6,287)
Basic earnings (loss) per Share	\$0.01	\$0.05	(\$0.31)	(\$0.15)
Diluted earnings (loss) per Share	\$0.01	\$0.05	(\$0.31)	(\$0.15)
Non-IFRS Measures and Other Performance Measures:				
Corporate retail stores, end of period	108	110	108	110
Comparable Sales Growth (Decline) ⁽¹⁾⁽²⁾	(7.4%)	n/a	(5.5%)	n/a
EBITDA ⁽¹⁾	10,688	12,908	12,154	19,919
Adjusted EBITDA ⁽¹⁾	5,522	7,276	(3,309)	3,443
Adjusted Net Income (Loss) ⁽¹⁾	1,327	2,639	(10,311)	(4,726)
Adjusted Net Income (Loss) per Share ⁽¹⁾	\$0.03	\$0.06	(\$0.25)	(\$0.11)

Notes:

- (1) Comparable Sales Growth (Decline), EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Net Income (Loss) per Share are non-IFRS measures. See “Cautionary Note Regarding Non-IFRS Measures and Industry Metrics” for a description of these measures and “Reconciliation of Non-IFRS Measures” for reconciliation of these measures.
- (2) Comparable Sales Growth (Decline) was not calculated for Q3 2022 or YTD 2022 as a result of the impacts of COVID-19. Please see “Cautionary Note Regarding Non-IFRS Measures and Industry Metrics”.

RECONCILIATION OF NON-IFRS MEASURES

The tables below provide a reconciliation of net income (loss) to EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Net Income (Loss) per Share for the periods presented:

CAD \$000s	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net income (loss)	519	2,209	(12,781)	(6,287)
<i>Add the impact of:</i>				
Interest expense (a)	2,552	2,375	7,124	6,436
Income taxes expense (recovery) (a)	259	1,014	(4,435)	(1,918)
Depreciation and amortization (a)	7,358	7,310	22,246	21,688
EBITDA	10,688	12,908	12,154	19,919
<i>Adjust for the impact of:</i>				
SG&A: Rent expense excluded from net income (loss) as a result of IFRS 16 (a)	(5,792)	(5,729)	(17,352)	(17,405)
SG&A: Purchase accounting adjustments (b)	(12)	(12)	(33)	(5)
SG&A: Stock option expense (c)	99	97	332	409
SG&A: Changes in key personnel (d)	404	–	1,453	(5)
SG&A: Non-recurring legal fees (e)	87	12	87	530
SG&A: Other non-recurring items (f)	48	–	50	–
Adjusted EBITDA^(a)	5,522	7,276	(3,309)	3,443

CAD \$000s	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net income (loss)	519	2,209	(12,781)	(6,287)
<i>Reverse the impact of IFRS 16:</i>				
Rent expense excluded from net income (loss) (a)	(5,792)	(5,729)	(17,352)	(17,405)
Depreciation on ROU assets (a)	4,440	4,420	13,467	13,143
Interest on lease liabilities (a)	1,214	1,186	3,508	3,582
Deferred tax impact (a)	36	33	99	180
Total IFRS 16 impacts reversed	(102)	(90)	(278)	(500)
<i>Adjust for the impact of:</i>				
SG&A: Purchase accounting adjustments (b)	(12)	(12)	(33)	(5)
SG&A: Stock option expense (c)	99	97	332	409
SG&A: Changes in key personnel (d)	404	–	1,453	(5)
SG&A: Non-recurring legal fees (e)	87	12	87	530
SG&A: Other non-recurring items (f)	48	–	50	–
SG&A: Amortization of intangible assets acquired by Searchlight (h)	575	575	1,726	1,726
Total adjustments	1,201	672	3,615	2,655
Tax effect of adjustments	(291)	(152)	(867)	(594)
Adjusted Net Income (Loss)^(a)	1,327	2,639	(10,311)	(4,726)
Adjusted Net Income (Loss) per Share^(a)	0.03	0.06	(0.25)	(0.11)

Notes:

- (a) The impact of IFRS 16 in Q3 2023 and Q3 2022 was: (i) a decrease to selling, general, and admin (“SG&A”) expenses of \$1,352 and \$1,309, respectively, which comprised the impact of depreciation 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 \$1,214 and \$1,186, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$36 and \$33, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. The impact of IFRS 16 in YTD 2023 and YTD 2022 was: (i) a decrease to SG&A expenses of \$3,885 and \$4,262, 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 \$3,508 and \$3,582, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$99 and \$180, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded.

- (b) 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.
- (c) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Equity Incentive Plan.
- (d) 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.
- (e) Represents non-recurring legal costs that are outside the scope of normal operations.
- (f) In Q3 2023 and YTD 2023, represents one-time costs that do not reflect the underlying profitability of the business, including consulting fees related to inventory valuations used to explore alternative financing options with lower interest costs.
- (g) Adjusted EBITDA excludes the impact of IFRS 16. If the impact of IFRS 16 was included for Q3 2023 and Q3 2022, Adjusted EBITDA would have been \$11,326 and \$13,017, respectively. If the impact of IFRS 16 was included for YTD 2023 and YTD 2022, Adjusted EBITDA would have been \$14,076 and \$20,853, respectively.
- (h) 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.
- (i) Adjusted Net Income (Loss) excludes the impact of IFRS 16. If the impact of IFRS 16 was included for Q3 2023 and Q3 2022, Adjusted Net Income (Loss) would have been \$1,438 and \$2,738, respectively. If the impact of IFRS 16 was included for YTD 2023 and YTD 2022, Adjusted Net Income (Loss) would have been \$(10,009) and \$(4,222), respectively.
- (j) Adjusted Net Income (Loss) per Share has been calculated based on the weighted average number of Shares outstanding during the period. The weighted average number of Shares during Q3 2023 and Q3 2022 was 40,230,712 and 41,725,943, respectively. The weighted average number of Shares during YTD 2023 and YTD 2022 was 40,803,481 and 41,763,175, respectively.

Selected Financial Results for Q3 2023 Compared to Q3 2022

- Total sales decreased by \$6,248, or 9.0%, to \$63,534 in Q3 2023, from \$69,782 in Q3 2022.
 - DTC sales decreased by \$4,655, or 8.2%, in Q3 2023, compared to Q3 2022.
 - Partners and Other sales decreased by \$1,593, or 12.3%, in Q3 2023, compared to Q3 2022.
- Comparable Sales Growth (Decline)⁽¹⁾⁽²⁾ was (7.4%) in Q3 2023.
- Gross profit decreased by \$2,310, or 5.9%, to \$37,118 in Q3 2023, from \$39,428 in Q3 2022.
 - DTC gross profit decreased by \$1,942, or 5.6%, to \$32,555 in Q3 2023, from \$34,497 in Q3 2022, and as a percentage of sales (“**DTC gross margin**”) increased to 62.4% in Q3 2023, from 60.7% in Q3 2022.
- Selling, general and administrative expenses decreased by \$42, or 0.1%, to \$33,788 in Q3 2023, from \$33,830 in Q3 2022.
- Adjusted EBITDA⁽¹⁾ decreased by \$1,754, to \$5,522 in Q3 2023 from \$7,276 in Q3 2022.
- Net income (loss) decreased by \$1,690, to \$519 in Q3 2023, from \$2,209 in Q3 2022.
- Adjusted Net Income (Loss)⁽¹⁾ decreased by \$1,312, to \$1,327 in Q3 2023, from \$2,639 in Q3 2022.
- Basic earnings (loss) per Share decreased to \$0.01 in Q3 2023, from \$0.05 in Q3 2022.
- Adjusted Net Income (Loss) per Share⁽¹⁾ decreased to \$0.03 in Q3 2023, from \$0.06 in Q3 2022.

Selected Financial Results for YTD 2023 Compared to YTD 2022

- Total sales decreased by \$6,221, or 3.9%, to \$154,434 in YTD 2023, from \$160,655 in YTD 2022.
 - DTC sales decreased by \$7,985, or 6.0%, in YTD 2023, compared to YTD 2022.
 - Partners and Other sales increased by \$1,764, or 6.3%, in YTD 2023 compared to YTD 2022.
- Comparable Sales Growth (Decline)⁽¹⁾⁽²⁾ was (5.5%) in YTD 2023.
- Gross profit decreased by \$4,952, or 5.3%, to \$89,040 in YTD 2023, from \$93,992 in YTD 2022.
 - DTC gross profit decreased by \$5,110, or 6.2%, to \$77,518 in YTD 2023, from \$82,628 in YTD 2022, and DTC gross margin decreased to 62.2% in YTD 2023, from 62.3% in YTD 2022.

- SG&A expenses increased by \$3,371, or 3.5%, to \$99,132 in YTD 2023, from \$95,761 in YTD 2022.
- Adjusted EBITDA⁽¹⁾ decreased by \$6,752, to \$(3,309) in YTD 2023, from \$3,443 in YTD 2022.
- Net income (loss) decreased by \$6,494, to \$(12,781) in YTD 2023, from \$(6,287) in YTD 2022.
- Adjusted Net Income (Loss)⁽¹⁾ decreased by \$5,585, to \$(10,311) in YTD 2023, from \$(4,726) in YTD 2022.
- Basic earnings (loss) per Share decreased to \$(0.31) in YTD 2023, from \$(0.15) in YTD 2022.
- Adjusted Net Income (Loss) per Share⁽¹⁾ decreased to \$(0.25) in YTD 2023, from \$(0.11) in YTD 2022.

Note:

- (1) Comparable Sales Growth (Decline) Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Net Income (Loss) per Share are non-IFRS measures. See "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics" for a description of these measures and "Reconciliation of Non-IFRS Measures" for reconciliation of these measures.
- (2) Comparable Sales Growth (Decline) was not calculated for Q3 2022 and YTD 2022 as a result of COVID-19. Please see "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics".

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.

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

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 monetary assets 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".

Interest Expense

Interest expense relates to interest accrued on our lease liabilities and our Credit Facilities (as defined below). See "Indebtedness". Interest accrued relating to our Credit Facilities are exposed to fluctuations in variable interest rates. The Company utilizes a hedging program to manage its interest rate risk related to the underlying bankers' acceptance reference rate. See "Financial Instruments".

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 Q3 2023 as compared to Q3 2022 and YTD 2023 as compared to YTD 2022

The following section provides an overview of our financial performance during Q3 2023 compared to Q3 2022 and during YTD 2023 compared to YTD 2022.

Sales

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

CAD \$000s	Q3 2023	Q3 2022	% Change	YTD 2023	YTD 2022	% Change
DTC	52,203	56,858	(8.2%)	124,712	132,697	(6.0%)
Partners and Other	11,331	12,924	(12.3%)	29,722	27,958	6.3%
Total Sales	63,534	69,782	(9.0%)	154,434	160,655	(3.9%)

Total sales were \$63,534 in Q3 2023 as compared to \$69,782 in Q3 2022, representing a decrease of \$6,248, or 9.0%.

DTC sales decreased \$4,655, or 8.2%, in Q3 2023 as compared to Q3 2022. The year-over-year decrease in DTC sales was primarily driven by lower off-price sales reflecting our ongoing promotional discipline and the tightening of consumer discretionary spending in the current macroeconomic environment (see “Key Business Developments – Current Operating Environment”). This was partially offset by strength in full-price sales, which increased 3% year-over-year, reflecting excitement surrounding the brand and strong product performances, including continued growth of over 50% in our Active collection.

Sales in the Partners and Other segment decreased by \$1,593, or 12.3%, in Q3 2023 as compared to Q3 2022. The decrease in sales includes the favourable impact of \$222 in foreign exchange on U.S. dollar sales in Q3 2023, relative to Q3 2022. Excluding foreign exchange impacts, Q3 2023 sales in the Partners and Other segment would have decreased by \$1,815, or 14.0%, as compared to Q3 2022. The year-over-year decrease was attributed to timing shifts in the sales of custom Roots-branded products and a reduction in wholesale orders for Roots-branded products to select retail partners.

Total sales were \$154,434 in YTD 2023 as compared to \$160,655 in YTD 2022, representing a decrease of \$6,221 or 3.9%.

DTC sales decreased by \$7,985, or 6.0%, in YTD 2023 as compared to YTD 2022. The year-over-year decrease in DTC sales was primarily driven by continued challenging economic conditions (see “Key Business Developments – Current Operating Environment”). Although sales of our emerging apparel collections like Active have experienced strong year-over-year growth, they did not offset ongoing softness in demand for fleece bottoms.

Sales in the Partners and Other segment increased by \$1,764, or 6.3%, during YTD 2023 as compared to YTD 2022. The increase in sales includes the favourable impact of \$662 in foreign exchange on U.S. dollar sales in YTD 2023, relative to YTD 2022. Excluding foreign exchange impacts, YTD 2023 sales in the Partners and Other segment would have increased by \$1,102, or 3.9%, as compared to YTD 2022, driven by higher sales to our international operating partner in Taiwan, partially offset by lower sales and timing shifts of custom Roots-branded products to select business clients.

Gross Profit

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

CAD \$000s	Q3 2023	Q3 2022	% Change	YTD 2023	YTD 2022	% Change
DTC	32,555	34,497	(5.6%)	77,518	82,628	(6.2%)
Partners and Other	4,563	4,931	(7.5%)	11,522	11,364	1.4%
Total Gross Profit	37,118	39,428	(5.9%)	89,040	93,992	(5.3%)

Gross Margin	Q3 2023	Q3 2022	YTD 2023	YTD 2022
DTC	62.4%	60.7%	62.2%	62.3%
Partners and Other	40.3%	38.2%	38.8%	40.6%
Total Gross Margin	58.4%	56.5%	57.7%	58.5%

Gross profit was \$37,118 in Q3 2023, as compared to \$39,428 in Q3 2022, representing a decrease of \$2,310, or 5.9%.

Gross profit in the DTC segment decreased \$1,942 or 5.6%, in Q3 2023 as compared to Q3 2022. The decrease in gross profit margin was driven by lower sales volumes, partially offset by a higher gross margin on those sales. DTC gross margin was 62.4% in Q3 2023, as compared to 60.7% in Q3 2022, or an increase of 170 bps. This was driven by increased full-price sales and lower freight costs, including 230 bps from comping last year's use of air freight, partially offset by higher production costs from the transition to sustainable materials and an unfavourable foreign exchange impact on U.S. dollar purchases.

Gross profit in the Partners and Other segment decreased \$368, or 7.5%, in Q3 2023 as compared to Q3 2022. The decrease in gross profit in the Partners and Other segment was driven by lower sales volumes, partially offset by higher gross margin on those sales. Gross margin was 40.3% in Q3 2023, as compared to 38.2% in Q3 2022. The increase in gross margin was due to a higher-margins on wholesale products to our international operating partner in Taiwan, as compared to Q3 2022.

Gross profit was \$89,040 during YTD 2023 as compared to \$93,992 in YTD 2022, representing a decrease of \$4,952, or 5.3%.

Gross profit in the DTC segment decreased \$5,110, or 6.2%, in YTD 2023 as compared to YTD 2022. The decrease in gross profit was driven by lower sales volumes and a slightly lower gross margin on those sales. DTC gross margin was 62.2% in YTD 2023, as compared to 62.3% in YTD 2022, or a decline of 10 bps. This was driven by a decline in product margin due to higher product costs associated with the transition to sustainable materials and an increased sales mix of discounted products during the first half of the year, as well as the unfavourable impact of foreign exchange on U.S. dollar purchases. This was partially offset by reduced freight costs, including 140 bps from comping last year's use of air freight.

Gross profit in the Partners and Other segment increased \$158, or 1.4%, during YTD 2023 as compared to YTD 2022. The year-over-year increase in gross profit in the Partners and Other segment was driven by increased sales to our international operating partner in Taiwan, partially offset by lower royalties and sales of custom Roots-branded products to select business clients. Gross margin was 38.8% in YTD 2023, as compared to 40.6% in YTD 2022. The decrease in gross margin was due to a larger sales mix of lower-margin wholesale sales in YTD 2023, as compared to YTD 2022.

Selling, General and Administrative Expenses

SG&A expenses were \$33,788 in Q3 2023 as compared to \$33,830 in Q3 2022, representing a decrease of \$42, or 0.1%. The year-over-year change in SG&A expenses in Q3 2023 was driven by lower shipping rates and variable transaction costs, offset by higher personnel costs and increased investments in marketing.

SG&A expenses were \$99,132 in YTD 2023 as compared to \$95,761 in YTD 2022, representing an increase of \$3,371, or 3.5%. The increase in SG&A expenses YTD 2023 was primarily driven by higher personnel costs and contractual increases in occupancy costs, partially offset by lower shipping rates and variable transaction costs.

Interest Expense

Interest expense was \$2,552 in Q3 2023 as compared to \$2,375 in Q3 2022, representing an increase of \$177, or 7.5%. During YTD 2023, interest expense was \$7,124 as compared to \$6,436 during YTD 2022, representing an increase of \$688, or 10.7%.

The increase in interest expense in Q3 2023 and YTD 2023 was driven by an increase in the weighted average effective interest rate in comparison to Q3 2022 and YTD 2022, partially offset by reduced debt carried under the Credit Facilities (as defined below). See "Indebtedness".

Income Taxes Expense (Recovery)

Income taxes expense (recovery) was \$259 in Q3 2023, as compared to \$1,014 in Q3 2022. The effective tax rate for Q3 2023 and Q3 2022 was 33.3% and 31.5%, respectively. The increase in the effective tax rate in Q3 2023 was driven by the impact of non-deductible expenses on lower taxable income.

Income taxes expense (recovery) was \$(4,435) in YTD 2023, as compared to \$1,918 in YTD 2022. The effective tax recovery rate for YTD 2023 was 25.8% and the effective tax rate for YTD 2022 was 23.4%. There were lower non-deductible stock option expenses in YTD 2023 vs. YTD 2022.

Net Income (Loss)

Net income (loss) was \$519 in Q3 2023 as compared to \$2,209 in Q3 2022, representing a decrease of \$1,690. During YTD 2023, net income (loss) was \$(12,781) as compared to \$(6,287) in YTD 2022, representing a decrease of \$6,494. The decrease resulted from the factors described above.

QUARTERLY FINANCIAL INFORMATION

The following table summarizes the results of our operations for the eight most recently completed fiscal quarters. 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)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales	63,534	49,404	41,496	111,461	69,782	47,801	43,072	121,294
Net income (loss)	519	(5,334)	(7,966)	12,980	2,209	(3,235)	(5,261)	18,111
Net earnings (loss) per Share:								
Basic earnings (loss) per Share . . .	\$ 0.01	\$ (0.13)	\$ (0.19)	\$ 0.31	\$ 0.05	\$ (0.08)	\$ (0.13)	\$ 0.43
Diluted earnings (loss) per Share . .	\$ 0.01	\$ (0.13)	\$ (0.19)	\$ 0.31	\$ 0.05	\$ (0.08)	\$ (0.13)	\$ 0.42
Other Performance Measures								
Comparable Sales Growth (Decline) ⁽¹⁾	(7.4%)	(4.2%)	(3.8%)	n/a	n/a	n/a	n/a	n/a
Corporate retail stores, end of period	108	107	108	109	110	109	109	109
Short-term pop-up locations, end of period	13	13	12	13	12	9	9	10

Note:

- (1) Comparable Sales Growth (Decline) was not calculated for any fiscal quarters during F2022 or F2021 as a result of the impacts of COVID-19. Please see "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics".

See "Result of Operations" for discussion on Q3 2023 results.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Inventory

Inventory was \$61,381 at the end of Q3 2023, compared to \$72,855 at the end of Q3 2022, representing a decrease of \$11,474, or 15.7%.

The year-over-year decrease in inventory was driven by \$4,014 from lower on-hand inventory and \$7,460 of lower in-transit goods as inventory purchases were strategically managed to leverage existing core and pack-and-hold collections.

Cash Flows

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 conditions and other factors, including those beyond our control. See “Key Business Developments – Current Operating Environment”, “Risks and Uncertainties” and “Factors Affecting our Performance” for additional information.

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

CAD\$000s	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net cash generated from (used in) operating activities.....	4,146	(1,820)	(5,493)	(11,981)
Net cash used in financing activities	(3,211)	(2,274)	(18,215)	(14,977)
Net cash used in investing activities.....	(928)	(1,904)	(3,627)	(4,672)
Change in cash	7	(5,998)	(27,335)	(31,630)

Analysis of Cash Flows for Q3 2023 and YTD 2023 compared to Q3 2022 and YTD 2022

Cash Flows used in Operating Activities

Q3 2023 cash flows generated from (used in) operating activities amounted to \$4,146 compared to \$(1,820) in Q3 2022. The year-over-year increase in cash generated from operating activities was primarily attributable to changes in our working capital position as a result of reduced inventory levels.

YTD 2023 cash flows used in operating activities amounted to \$(5,493) compared to \$(11,981) in YTD 2022. The year-over-year decrease in cash used in operating activities was primarily due to changes in our working capital position as a result of reduced inventory levels, as well as a tax refund received in YTD 2023 as compared to net tax paid in YTD 2022.

Cash Flows used in Financing Activities

Q3 2023 and YTD 2023, cash flows used in financing activities amounted to \$(3,211) and \$(18,215) respectively, compared to \$(2,274) and \$(14,977) in Q3 2022 and YTD 2022, respectively.

The year-over-year increase in cash flows used in financing activities in Q3 2023, as compared to Q3 2022, was attributed to higher repurchases of Shares for cancellation under our normal course issuer bid (“NCIB”) and lower net amounts drawn on our Revolving Credit Facility during Q3 2023.

The year-over-year increase in cash flows used in financing activities in YTD 2023, as compared to YTD 2022, was primarily driven by higher repurchases of Shares for cancellation under our NCIB and a cash sweep against the Term Credit Facility, partially offset by higher amounts drawn on our Revolving Credit Facility during YTD 2023.

Cash Flows used in Investing Activities

For Q3 2023 and YTD 2023, cash flows used in investing activities amounted to \$(928) and \$(3,627), respectively, compared to \$(1,904) and \$(4,672) in Q3 2022 and YTD 2022, respectively.

The year-over-year decrease in cash flows used in investing activities in Q3 2023, as compared to Q3 2022, was primarily due to less investment in capital projects.

The year-over-year decrease in cash flows used in investing activities in YTD 2023, as compared to YTD 2022, was primarily due to lower capital expenditures, partially offset by the investment in Mr. Saturday in the first quarter of F2023. See “Key Business Developments – Investment in Saturday Industries Limited”.

INDEBTEDNESS

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

On April 4, 2023, the Company amended and restated the Credit Agreement to extend the maturity date of 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.

As at the end of Q3 2023, the Company had a total amount outstanding under its Credit Facilities of \$58,816 (Q3 2022 – \$62,288) and had total liquidity of \$58,086 (Q3 2022 – \$58,615), including net 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 Q3 2023, 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 Q3 2023, the weighted average effective interest rate of the Credit Facilities was 7.8%, increasing from 6.2% during Q3 2022 due to increases in the underlying market interest rates.

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

CAD \$000s	Term Credit Facility	Revolving Credit Facility
Within 1 year	4,449	-
Between 1 - 2 years	4,449	-
Between 2 - 3 years	43,418	6,500
Total	52,316	6,500

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 October 28, 2023:

CAD\$000s	Remainder of						Total
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Thereafter	
Term Credit Facility ⁽¹⁾	1,112	4,449	4,449	42,306	–	–	52,316
Revolving Credit Facility	–	–	–	6,500	–	–	6,500
Payments on lease liabilities	6,048	22,590	19,909	17,424	13,098	17,662	96,731
Inventory purchase commitments ⁽²⁾	6,771	9,154	–	–	–	–	15,925
Total commitments and obligations	13,931	36,193	24,358	66,230	13,098	17,662	171,472

Notes:

- (1) The repayment of the Term Credit Facility, Revolving Credit Facility, and Swing Loan may occur prior to the mandatory repayment time if certain events occur and/or at the discretion of the Company.
- (2) Inventory purchase commitments reflect the cost (excluding duties and shipping) of outstanding inventory purchases ordered from our vendors and expected to be received within the period, excluding in-transit purchases that have already been recognized. 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 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 a portion of our 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 instruments, 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 foreign currency forward contracts ("**forward contracts**") is determined using a valuation technique that employs the use of market observable inputs and 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 October 28, 2023, the Company has recorded derivative assets of \$933 (October 29, 2022 – derivative asset of \$1,374), representing forward contracts to buy US\$16,730 (October 29, 2022 – US\$21,365) at an average rate of 1.35 (October 29, 2022 – 1.29) 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 at October 28, 2023, the exchange rate was 1.39 (October 29, 2022 – 1.36). The forward contracts have maturity dates between October 30, 2023 and October 7, 2024 and the swap contracts are effective until September 6, 2024.

SHARE INFORMATION

As of December 5, 2023, there were 40,250,213 Shares issued and outstanding. There were no preferred shares issued and outstanding as of December 5, 2023.

During YTD 2023:

- 1,438,318 Shares were purchased for cancellation, under the Company's NCIB;
- 350,000 stock options were granted;
- 100,000 Warrants were issued;
- 226,668 stock options were exercised; and
- 232,158 stock options were forfeited and cancelled.

As at October 28, 2023, 2,186,247 stock options, 100,000 Warrants, and 15,985 restricted stock units ("**RSUs**") were granted and outstanding and 1,474,571 stock options and 15,985 RSUs were vested as of such date. Each stock option, Warrant, and RSU is, or will become, exercisable for one Share.

As at October 28, 2023, 874,764 deferred share units ("**DSUs**") were outstanding under the Company's deferred share unit plan (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 51.0% of the total issued and outstanding Shares and 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 Q3 2023 and YTD 2023, the rent paid as it relates to the lease of this property was \$71 (Q3 2022 – \$71) and \$213 (YTD 2022 – \$213), respectively.

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 (loss). 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) by \$222 as at the end of Q3 2023 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 (loss) 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 October 28, 2023, we have only variable interest rate debt. In the fourth quarter of F2022, 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. 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 \$50 in Q3 2023 and \$133 in YTD 2023. The impact of future interest rate expense resulting from changes in interest rates will depend largely on the gross amount of our borrowings at such time.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily accounts receivable. The Company's accounts receivable consist primarily of receivables from our business partners in 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 carefully monitor its compliance with its covenants and seek waivers if such need arises at that time. See "Key Business Developments – Current Operating Environment" and "Indebtedness".

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.

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.

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 Q3 2023 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 critical accounting estimates and judgments as disclosed in the Company's F2022 MD&A have been applied consistently in the preparation of this MD&A.

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.

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".