

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and there are, or may be deemed to be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes", "expects", "may", "will", "should", "could", "seeks", "projects", "approximately", "intend", "plans", "estimates" or "anticipates" or, in each case, their negatives or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Quarterly Report on Form 10-Q and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, competitive strengths and differentiators, strategy, long-term Adjusted EBITDA margin potential, dividend policy, impact of the macroeconomic environment, properties, outcome of litigation and legal proceedings, use of cash and operating and capital expenditures, impact of new accounting pronouncements, and impact of improvements to internal control and financial reporting.

While we believe these expectations and projections are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the risk factors listed under Item 1A. Risk Factors, as well as other cautionary language in Form 10-K filed with the SEC on April 30, 2021.

Actual results may differ materially from those in the forward-looking statements as a result of various factors, including but not limited to, the following:

- We may not have sufficient cash to maintain our operations following the Restructuring Plan.*
- Our ability to successfully pivot our business to a digital-first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees that are instrumental to growing our online and wholesale channel businesses;*
- The duration and impact of the global COVID-19 pandemic, which has disrupted the Company's business and has adversely affected the Company's financial condition and operating results, and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners;*
- Our ability to manage significant changes to our leadership team;*
- Our ability to maintain and enhance our brand image;*
- Significant competition within our industry;*
- Our ability to attract and retain employees that embody our entrepreneurial culture;*
- Changes in consumer preferences and economic conditions affecting disposable income;*
- Our ability to source, develop and market new varieties of teas, tea accessories, and beverages;*
- Our reliance upon the continued retention of key personnel;*
- The impact from real or perceived quality or safety issues with our teas, tea accessories, and beverages;*
- Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, in particular in light of supply chain disruption due to the COVID-19 pandemic;*
- The impact of weather conditions, natural disasters and man-made disasters on the supply and price of tea;*

- *Actual or attempted breaches of data security;*
- *The costs of protecting and enforcing our intellectual property rights and defending against intellectual property claims brought by others;*
- *Fluctuations in exchange rates; and*
- *The seasonality of our business.*

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. These statements are based upon information available to us as of the date of this Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially-available relevant information. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report on Form 10-Q might not occur, and investors are cautioned not to unduly rely upon these statements.

Forward-looking statements speak only as of the date of this Form 10-Q. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-Q, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this Form 10-Q or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Accounting Periods

All references to “Fiscal 2021” are to the Company’s fiscal year ending January 29, 2022. All references to “Fiscal 2020” are to the Company’s fiscal year ended January 30, 2021.

The Company’s fiscal year ends on the Saturday closest to the end of January, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. The year ended January 30, 2021 and the year ending January 29, 2022 both cover a 52-week period.

Overview

The Company offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 3,300 grocery stores and pharmacies, and 18 company-owned stores across Canada. We offer primarily proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea.

We believe that our proprietary loose-leaf tea assortment and related product suite differentiates us from competitors in North America and resonates with our target customer base. Our strategy is to stabilize our business from unfavorable trend lines by playing to our core strengths and strengthening our business by focusing on how to grow our product portfolio. This includes migrating sales to a virtual experience and best-in-class customer service execution. We are focused on effectively optimizing our retail footprint into a more sustainable physical presence that complements a growing online and wholesale business, all supported by a right-sized support organization.

On March 17, 2020, we closed all of our stores in North America, as subsequently mandated by the governments in both Canada and the United States in light of the COVID-19 pandemic. Due to the degree of uncertainty in connection with the scope and extent of the COVID-19 pandemic and the resulting impact to our business, and considering that significant losses were historically incurred in our brick-and-mortar operations which were anchored by commercial leases that are difficult to modify, we concluded that our transformation objectives would be better achieved through a formal restructuring process.

On July 8, 2020, the Company announced that it was implementing a restructuring plan (the “Restructuring Plan”) under the Companies’ Creditors Arrangement Act (Canada) (the “CCAA”) in order to accelerate its transition to predominantly an online retailer and wholesaler of high-quality tea and accessories and that during the restructuring process, the Company would continue to operate its online business through its e-commerce platform at www.davidstea.com and the Amazon Marketplace as well as its wholesale distribution channel. Following a careful review of available options to stem the losses from our brick-and-mortar footprint, the Company’s management and Board of Directors determined that the formal Restructuring Plan was the best option in the context of an increasingly challenging retail environment, further exacerbated by the COVID-19 pandemic.

On July 8, 2020, the Company obtained an Initial Order pursuant to the CCAA from the Québec Superior Court in order to implement the Restructuring Plan (the “Initial Order”).

On July 9, 2020, the United States Bankruptcy Court for the District of Delaware entered an order in favor of the Company under Chapter 15 of the United States Bankruptcy Code. The order of the United States Bankruptcy Court provisionally recognized the proceedings under the CCAA and enforced the Initial Order, in effect providing protection to the Company from creditor action against our assets in the United States.

As part of the Restructuring Plan and further to obtaining the Initial Order, the Company, on July 10, 2020, sent notices to terminate leases for 82 of its stores in Canada and all 42 of its stores in the United States. These lease terminations were effective on August 9, 2020.

On July 16, 2020, the Company obtained an Amended and Restated Initial Order from the Québec Superior Court, extending to September 17, 2020 the application of the Initial Order. The Amended and Restated Initial Order also dealt with certain administrative matters, particularly with regards to the lease terminations.

On July 30, 2020, the Company sent notices to terminate leases for an additional 82 of its stores in Canada. These lease terminations were effective on August 29, 2020.

On September 17, 2020, the Québec Superior Court extended the stay of all proceedings against the Company to December 15, 2020 and issued a claims process order (the “Claims Process Order”) establishing the claims procedures for the Company’s creditors under the CCAA. The Claims Process Order, among other things, set November 6, 2020 (the “Claims Bar Date”) as the time by which creditors had to submit their claims to PricewaterhouseCoopers (“PwC”), the Court-appointed Monitor.

On December 15, 2020, the Québec Superior Court extended the stay of all proceedings against the Company to March 19, 2021. The Court also approved a retention plan for certain key employees (“KERP”) and created a priority charge over the debtors’ assets for the KERP in addition to extending the Claims Bar Date for certain Canadian employees until December 31, 2020.

On March 19, 2021, the Québec Superior Court extended the stay of all proceedings against the Company to June 4, 2021, and addressed certain administrative matters.

On May 7, 2021, the Company obtained an order from the Québec Superior Court authorizing the Company to file its plan of arrangement (the “Plan of Arrangement” or the “Plan”) under the CCAA and to call a creditors’ meeting to be held on June 11, 2021. The Court order also extended to July 16, 2021 the previously-announced stay of all proceedings against the Company under the CCAA.

At the creditors’ meeting held on June 11, 2021, the Plan of Arrangement was approved by the requisite majorities of creditors of DAVIDsTEA Inc. and its subsidiary, DAVIDsTEA (USA) Inc., respectively, in accordance with the CCAA, that is, a simple majority of creditors of DAVIDsTEA Inc. and of DAVIDsTEA (USA) Inc., voting separately, whose claims were affected by the Plan of Arrangement, representing in each case at least two-thirds in dollar value of all such claims duly filed in accordance with the CCAA proceedings.

The Plan of Arrangement approved by the Company’s creditors on June 11, 2021 required that DAVIDsTEA Inc. distribute an aggregate amount of approximately \$17.6 million to its creditors and those of DAVIDsTEA (USA) Inc. in full and final settlement of all claims affected by the Plan of Arrangement.

On June 16, 2021, the Company was granted a sanction order (the “Sanction Order”) for the Plan of Arrangement from the Québec Superior Court and obtained recognition of the Sanction Order from the United States Bankruptcy Court for the District of Delaware under Chapter 15 of the United States Bankruptcy Code.

On June 18, 2021, the Monitor issued a Certificate of Implementation in accordance with paragraph 16 of the Sanction Order, in which it certified that all the conditions precedent to the implementation of the Plan, as set forth in section 7.2 of the Plan, had been fulfilled or waived by the debtors;

Upon issuance of the Certificate of Implementation, the Monitor began distributing funds to the creditors who had duly proven their claims as part of the claims process. On September 9, 2021, the Monitor filed a Certificate of Termination with the Québec Superior Court in accordance with paragraph 24 of the Sanction Order and declared the CCAA proceedings were terminated without further act or formality.

Management believes that there is material uncertainty surrounding our ability to execute the strategy necessary to return to profitability in the current environment, including the unpredictability surrounding the recovery from the COVID-19 pandemic, and

changes in consumer behavior. As a result, these events and conditions indicate that a material uncertainty exists that raises substantial doubt about the Company's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business.

Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us and may pose risks and challenges, as discussed in the "Risk Factors" section under "Item 1A. Risk Factors" of this Form 10-Q and in our Form 10-K filed with the SEC and on SEDAR and available at www.sec.gov and www.sedar.com, respectively.

How We Assess Our Performance

The key measures we use to evaluate the performance of our business and the execution of our strategy are set forth below:

Sales. Sales are generated from our online store, retail stores, and from our wholesale distribution channel. Our business is seasonal and, as a result, our sales fluctuate from quarter to quarter. Sales are traditionally highest in the fourth fiscal quarter, which includes the holiday sales period, and tend to be lowest in the second and third fiscal quarters because of lower customer engagement in both our online store and physical locations in the summer months.

The specialty retail industry is cyclical, and our sales are affected by general economic conditions. A number of factors that influence the level of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence can affect purchases of our products.

As we transition to generating sales primarily from our online store, measuring the change in period-over-period comparable same store sales, although still a valid measure within our retail sales channel, loses its significance in the overall evaluation of how our business is performing. Other measures such as sales performance in total and in our e-commerce and wholesale channels begin to influence how we direct resources and evaluate our performance. Factors affecting our performance include:

- our ability to anticipate and respond effectively to consumer preference, buying and economic trends;
- our ability to provide a product offering that generates new and repeat visits online and in our other channels;
- the customer experience we provide online and in our other channels;
- the level of customer traffic to our website and our online presence more generally;
- the number of customer transactions and average ticket online;
- the pricing of our tea, and tea accessories; and
- our ability to obtain, manufacture and distribute product efficiently.

Gross Profit. Gross profit is equal to our sales less our cost of sales. Cost of sales includes product costs, freight costs, certain store occupancy costs, assembly and delivery and distribution costs.

Restructuring Plan Activities. Restructuring Plan activities consist of gains on modification of lease liabilities, estimates for allowed landlord claims, loss on disposal of property and equipment and right-of-use assets, impairment of property and equipment and right-of-use assets, severance costs, interest and penalties related to unpaid occupancy charges, professional fees, store closure related costs, and the gain on settlement of liabilities subject to compromise.

Selling, General and Administration Expenses. Selling, general and administration expenses ("SG&A") consist of store operating expenses and other general and administration expenses. Store operating expenses consist of all store expenses excluding certain occupancy related costs (which are included in costs of sales). General and administration costs consist of salaries and other payroll costs, travel, professional fees, stock compensation, marketing expenses, information technology, depreciation of property and equipment, amortization of intangible assets, amortization of right-of-use assets, any store or other asset impairment taken in the normal course of business and other operating costs.

General and administration costs, which are generally fixed in nature, do not vary proportionally with sales to the same degree as our cost of sales. We believe that these costs will decrease as a percentage of sales over time. Accordingly, this expense as a percentage of sales is usually higher in lower volume quarters and lower in higher volume quarters.

We present Adjusted selling, general and administration expenses as a supplemental measure because we believe it facilitates a comparative assessment of our selling, general and administration expenses under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure under “Non-IFRS Financial Measures” in this Quarterly Report on Form 10-Q.

Results from Operating Activities. Results from operating activities consist of our gross profit less our selling, general and administration expenses and Restructuring Plan activities.

We present Adjusted results from operating activities as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure under “Non-IFRS Financial Measures” in this Quarterly Report on Form 10-Q.

Finance Costs. Finance costs consist of cash and imputed non-cash charges related to any credit facility, and interest expense from lease liabilities.

Finance Income. Finance income consists of interest income on cash balances.

Adjusted EBITDA. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. Specifically, Adjusted EBITDA allows for an assessment of our operating performance and our ability to service or incur indebtedness without the effect of non-cash charges, such as depreciation, amortization, finance costs, non-cash compensation expense, loss on disposal of property and equipment, impairment of property and equipment and right-of-use assets, and certain non-recurring expenses. This measure also functions as a benchmark to evaluate our operating performance. It is reconciled to its nearest IFRS measure under “Non-IFRS Financial Measures” in this Quarterly Report on Form 10-Q.

Selected Operating and Financial Highlights

Results of Operations

Sales during the third quarter of Fiscal 2021 decreased by \$4.0 million or 15.3% to \$22.2 million over the prior year quarter due to a decrease in e-commerce and wholesale sales of \$5 million, partially offset by an increase in sales of \$1 million from brick-and-mortar. With the reduction of revenue the Company recorded Net loss of \$1.9 million for the period compared to a Net income of \$14.5 million in the prior year quarter. Excluding adjustments noted herein, Adjusted net loss for the quarter was \$1.8 million compared to an adjusted net income of \$2.8 million in the prior year quarter. Adjusted EBITDA in the third quarter of Fiscal 2021 was negative \$0.3 million compared to \$3.3 million in the prior year quarter.

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

	For the three months ended		For the nine months ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Consolidated statement of income (loss) data:				
Sales	\$ 22,203	\$ 26,225	\$ 64,195	\$ 81,497
Cost of sales	13,587	15,399	36,816	47,409
Gross profit	8,616	10,826	27,379	34,088
Selling, general and administration expenses	10,242	7,120	28,521	35,883
Restructuring plan activities, net	195	(10,743)	(76,964)	24,017
Results from operating activities	(1,821)	14,449	75,822	(25,812)
Finance costs	71	35	104	3,260
Finance income	(28)	(53)	(118)	(361)
Net income (loss) before income taxes	(1,864)	14,467	75,836	(28,711)
Recovery of income tax	—	—	(1,000)	—
Net income (loss)	\$ (1,864)	\$ 14,467	\$ 76,836	\$ (28,711)
Percentage of sales:				
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	61.2%	58.7%	57.4%	58.2%
Gross profit	38.8%	41.3%	42.6%	41.8%
Selling, general and administration expenses	46.1%	27.1%	44.4%	44.0%
Restructuring plan activities, net	0.9%	(41.0)%	(119.9)%	29.5%
Results from operating activities	(8.2)%	55.1%	118.1%	(31.7)%
Finance costs	0.3%	0.1%	0.2%	4.0%
Finance income	(0.1)%	(0.2)%	(0.2)%	(0.4)%
Net income (loss)	(8.4)%	55.2%	119.7%	(35.2)%
Other financial and operations data:				
Adjusted EBITDA ⁽¹⁾	\$ (308)	\$ 3,304	\$ 1,555	\$ 4,266
Adjusted EBITDA as a percentage of sales	(1.4)%	12.6%	2.4%	5.2%
Adjusted SG&A ⁽¹⁾	\$ 10,359	\$ 8,566	\$ 29,780	\$ 36,767
Adjusted results from operating activities ⁽¹⁾	\$ (1,743)	\$ 2,260	\$ (2,401)	\$ (2,679)
Adjusted net income (loss) ⁽¹⁾	\$ (1,786)	\$ 2,278	\$ (2,387)	\$ (5,578)

(1) For a reconciliation of Adjusted EBITDA, Adjusted SG&A, Adjusted results from operating activities, and Adjusted net income (loss), to the most directly comparable measure calculated in accordance with IFRS, see "Non-IFRS financial measures" below.

Non-IFRS Financial Measures

The Company uses certain non-IFRS financial measures for purposes of comparison to prior periods, to prepare annual operating budgets, and for the development of future projections. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

We use non-IFRS financial measures to provide supplemental measures of our operating performance and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS financial measures.

These non-IFRS financial measures include; Adjusted selling general and administrative expenses, Adjusted results from operating activities, Adjusted net income (loss), Adjusted EBITDA and Adjusted fully diluted net income (loss) per common share.

We believe that although these non-IFRS financial measures provide investors with useful information with respect to our historical operations and are frequently used by securities analysts, lenders and others in their evaluation of companies, they have limitations as an analytical tool. Some of these limitations are:

- Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net income (loss) and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net income (loss) and Adjusted EBITDA do not reflect the cash requirements necessary to fund capital expenditures; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

Because of these limitations, these non-IFRS financial measures should not be considered as discretionary cash available to us to reinvest in the growth of our business or as a measure of cash that will be available to us to meet our obligations.

The following tables provide reconciliations of our non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS:

Reconciliation of Selling, general and administration expenses to Adjusted selling, general and administration expenses

	For the three months ended		For the nine months ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Selling, general and administration expenses	\$ 10,242	\$ 7,120	\$ 28,521	\$ 35,883
Impairment of property and equipment and right-of-use assets (a)	—	—	—	(2,561)
Software implementation costs (b)	(641)	—	(3,095)	—
Government emergency wage and rent subsidy (c)	758	1,446	4,354	3,445
Adjusted selling, general and administration expenses	<u>\$ 10,359</u>	<u>\$ 8,566</u>	<u>\$ 29,780</u>	<u>\$ 36,767</u>

- (a) Represents costs related to impairment of property, equipment and right-of-use assets for stores and intangible assets.
(b) Represents costs related to implementation and configuration of software solutions.
(c) Represents the wages and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

Reconciliation of Results from operating activities to Adjusted results from operating activities

	For the three months ended		For the nine months ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Results from operating activities	\$ (1,821)	\$ 14,449	\$ 75,822	\$ (25,812)
Impairment of property and equipment and right-of-use assets (a)	—	—	—	2,561
Software implementation costs (b)	641	—	3,095	—
Restructuring plan activities, net (c)	195	(10,743)	(76,964)	24,017
Government emergency wage and rent subsidy (d)	(758)	(1,446)	(4,354)	(3,445)
Adjusted results from operating activities	<u>\$ (1,743)</u>	<u>\$ 2,260</u>	<u>\$ (2,401)</u>	<u>\$ (2,679)</u>

- (a) Represents costs related to impairment of property, equipment and right-of-use assets for stores and intangible assets.
(b) Represents costs related to implementation and configuration of software solutions.
(c) Represents the costs related to the Restructuring Plan activities, net.
(d) Represents the wages and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

Reconciliation of Net income (loss) to Adjusted net income (loss)

	For the three months ended		For the nine months ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net income (loss)	\$ (1,864)	\$ 14,467	\$ 76,836	\$ (28,711)
Impairment of property and equipment and right-of-use assets (a)	—	—	—	2,561
Software implementation costs (b)	641	—	3,095	—
Restructuring plan activities, net (c)	195	(10,743)	(76,964)	24,017
Government emergency wage and rent subsidy (d)	(758)	(1,446)	(4,354)	(3,445)
Recovery of income taxes (e)	—	—	(1,000)	—
Adjusted net income (loss)	\$ (1,786)	\$ 2,278	\$ (2,387)	\$ (5,578)

- (a) Represents costs related to impairment of property, equipment and right-of-use assets for stores and intangible assets.
- (b) Represents costs related to implementation and configuration of software solutions.
- (c) Represents the costs related to the Restructuring Plan activities, net.
- (d) Represents the wages and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.
- (e) Represents reversal of previously accrued estimate of income tax liabilities that was compromised by the Restructuring Plan activities.

Reconciliation of fully diluted net earnings (loss) per common share to Adjusted fully diluted net earnings (loss) per common share

	For the three months ended		For the nine months ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Weighted average number of shares outstanding, fully diluted	26,359,969	26,214,573	26,300,289	26,143,963
Adjusted weighted average number of shares outstanding, fully diluted	26,359,969	26,767,470	27,584,128	26,143,963
Net income (loss)	\$ (1,864)	\$ 14,467	\$ 76,836	\$ (28,711)
Adjusted net income (loss)	\$ (1,786)	\$ 2,278	\$ (2,387)	\$ (5,578)
Net earnings (loss) per share, fully diluted	\$ (0.07)	\$ 0.54	\$ 2.79	\$ (1.10)
Adjusted net income (loss) per share, fully diluted	\$ (0.07)	\$ 0.09	\$ (0.09)	\$ (0.21)

Reconciliation of Net income (loss) to Adjusted EBITDA

	For the three months ended		For the nine months ended	
	October 30,	October 31,	October 30,	October 31,
	2021	2020	2021	2020
Net income (loss)	\$ (1,864)	\$ 14,467	76,836	\$ (28,711)
Finance costs	71	35	104	3,260
Finance income	(28)	(53)	(118)	(361)
Depreciation and amortization	1,043	846	3,019	6,166
Recovery of income taxes	—	—	(1,000)	—
EBITDA	\$ (778)	\$ 15,295	78,841	\$ (19,646)
Additional adjustments:				
Stock-based compensation expense (a)	392	198	937	778
Impairment of property and equipment and right-of-use assets (b)	—	—	—	2,561
Software implementation costs (c)	641	—	3,095	—
Restructuring plan activities, net (d)	195	(10,743)	(76,964)	24,017
Government emergency wage and rent subsidy (e)	(758)	(1,446)	(4,354)	(3,445)
Adjusted EBITDA	\$ (308)	\$ 3,304	1,555	\$ 4,265

(a) Represents non-cash stock-based compensation expense.

(b) Represents costs related to impairment of property and equipment and right-of-use assets and intangibles assets for stores.

(c) Represents costs related to implementation and configuration of software solutions.

(d) Represents the costs related to the Restructuring Plan activities, net.

(e) Represents the wages and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

Operating results for the three months ended October 30, 2021 compared to the operating results for the three months ended October 31, 2020

Sales. Sales for the three-months ended October 30, 2021 decreased 15.3%, or \$4.0 million, to \$22.2 million from \$26.2 million in the prior year quarter. On March 17, 2020, in response to the COVID-19 pandemic, the Company temporarily closed all its retail stores in Canada and the United States, and subsequently in the second quarter of Fiscal 2020 as part of its Restructuring Plan pursuant to the CCAA, exited all of its brick-and-mortar stores except for 18 Canadian stores which were reopened on August 21, 2020. Accordingly, brick and mortar sales for the quarter compare favorably to the prior year quarter by \$1.0 million since stores were not open for two of the three months in the prior year. Sales from e-commerce and wholesale channels decreased by \$5.1 million or 22.9% to \$17.1 million from \$22.1 million in the prior year quarter with the transition from last year's pandemic-fueled surge of online sales to serving consumers throughout our omni-channel capabilities. E-commerce and wholesale sales represented 77.1% of sales compared to 84.3% of sales in the prior year quarter.

Gross Profit. Gross profit of \$8.6 million for the three-months ended October 30, 2021 decreased by \$2.2 million or 20.4% from the prior year quarter due to a decline in sales during the period, higher retail lease expenses and lower gross margin on tea, partially offset by lower delivery and distribution costs, compared to the prior year quarter. Gross profit as a percentage of sales decreased to 38.7% for the quarter compared to 41.3% in the prior year quarter.

Selling, General and Administration Expenses. Selling, general and administration expenses ("SG&A") increased by \$3.1 million or 43.9% to \$10.2 million in the quarter compared to the prior year quarter. Excluding the impact of software implementation and configuration costs and the impact of the wage and rent subsidies received under the Canadian government COVID-19 Economic Response Plan, Adjusted SG&A increased by \$1.8 million or 20.9% to \$10.4 million in the quarter primarily due to increases in recurring software related costs, staffing and online marketing expenses as we continue the transformation to a digital first organization. Adjusted SG&A as a percentage of sales in the quarter increased to 46.7% from 32.7% in the prior year quarter.

Restructuring Plan activities, net. Restructuring plan activities, net includes an expense of \$195 thousand related to professional services in connection with the completion of the CCAA proceedings compared to a gain of \$10.7 million in the prior year quarter.

Results from Operating Activities. Results from operating activities during the quarter were negative \$1.8 million compared to earnings of \$14.4 million in the prior year quarter. Excluding the impact of the Restructuring Plan, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and software implementation costs, Adjusted operating loss amounted to \$1.7 million in the quarter compared to an income of \$2.3 million in the prior year quarter. The decrease in operating results is explained by the lower Gross profit and the increased SG&A in pursuit of our ongoing transformation to a digital first organization.

Finance Costs. Finance costs amounted to \$71 thousand in the three-months ended October 30, 2021 which is comparable to nil from the prior year quarter.

Finance Income. Finance income of \$28 thousand is derived mainly from interest on cash on hand and has decreased from the prior year quarter.

Net income (loss). Net loss was \$1.9 million in the quarter ended October 30, 2021 compared to a Net income of \$14.5 million in the prior year quarter. Adjusted net loss, which excludes the impact of Restructuring Plan activities, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, software implementation costs and recovery of income taxes amounted to a Net loss of \$1.8 million compared to a Net income of \$2.3 million in the prior year quarter.

Fully diluted earnings (loss) per common share. Fully diluted loss per common share was \$0.07 in the quarter ended October 30, 2021 compared to fully diluted earnings per common share of \$0.54 in the prior year quarter. Adjusted fully diluted loss per common share, which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was \$0.07, compared to \$0.09 in the prior year quarter.

EBITDA and Adjusted EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was negative \$778 thousand in the quarter ended October 30, 2021 compared to \$15.3 million in the prior year quarter representing a decrease of \$16.1 million over the prior year quarter. Adjusted EBITDA for the quarter ended October 30, 2021, which excludes the impact of stock-based compensation expense, the Restructuring Plan activities, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and software implementation costs was negative \$308 thousand compared to \$3.3 million for the same period in the prior year. The decrease in Adjusted EBITDA of \$4.1 million reflects the decline in sales from last year's pandemic-fueled surge of online sales, increases in recurring software related costs, planned increases in online marketing and staffing costs, partially offset by an improved delivery and distribution cost structure. All is an outcome of the continued transformation efforts resulting in the realignment of the business model to primarily an e-commerce and wholesale distribution model.

Operating results for the nine months ended October 30, 2021 compared to the operating results for the nine months ended October 31, 2020

Sales. Sales for the nine-months ended October 30, 2021 decreased 21.2%, or \$17.3 million, to \$64.2 million from \$81.5 million in the prior year. On March 17, 2020, in response to the COVID-19 pandemic, the Company temporarily closed all its retail stores in Canada and the United States, and subsequently in second quarter of Fiscal 2020 as part of its formal Restructuring Plan, exited all of its brick-and-mortar stores except for 18 Canadian stores which were subsequently reopened on August 21, 2020. Accordingly, brick and mortar sales for the nine-month period ended October 30, 2021 declined compared to the prior year period by \$7.9 million or 40.9% to \$11.4 million. Sales from e-commerce and wholesale channels decreased by \$9.4 million or 15.1% to \$52.7 million, from \$62.1 million in the prior year. For the nine-month period ended October 30, 2021, e-commerce and wholesale sales represented 82.1% of total sales as opposed to 76.2% in the same period in the prior year.

Gross Profit. Gross profit of \$27.4 million for the nine-month period ended October 30, 2021 decreased by \$6.7 million or 19.7% from the same period of the prior year due primarily to a decline in sales and a lower gross margin during the period, partially offset by lower delivery and distribution costs and lower retail lease expense compared to the same period in the prior year. Gross profit as a percentage of sales increased to 42.6% for the nine-month period compared to 41.8% in the same period in the prior year.

Selling, General and Administration Expenses. Selling, general and administration expenses ("SG&A") decreased by \$7.4 million or 20.5%, to \$35.9 million in the nine-months ended October 30, 2021 from the same period in the prior year. Excluding the impact of the impairment of property and equipment and right-of-use assets for the nine-month period ended October 31, 2020, the impact of software implementation costs, and the impact of the wage and rent subsidies received under the Canadian Government COVID-19 Economic Response Plan, Adjusted SG&A decreased by \$7.0 million or 19.0% to \$29.8 million during the nine-month period ended October 30, 2021 compared to \$36.8 million in the same period in the prior year. In connection with our Restructuring Plan, we terminated the leases for all of our stores in North America during the nine-month period ended October 31, 2020, except for 18 Canadian stores which reopened on August 21, 2020. As a result, during the nine-month period ended October 30, 2021, wages, salaries and employee benefits were reduced by \$5.0 million and we realized a reduction of \$2.3 million in amortization expenses due to a lower right-of-use asset value at the beginning of the period. Adjusted SG&A as a percentage of sales for the nine-months ended October 30, 2021 decreased to 46.1% from 45.1% in the prior year quarter.

Restructuring Plan activities, net. Restructuring Plan activities, net amounting to a gain of \$76.9 million for the nine-month period ended October 30, 2021 compares favorably to a loss of \$24.0 million recorded in the same period in the prior year. Included in this period's gain is the impact of the Sanction Order that was granted on June 16, 2021. Therein, net liabilities subject to compromise amounting to \$95.3 million were settled according to the Sanction Order by payment of \$17.6 million through the Monitor to creditors who had duly proven their claims as part of the claims process. The resulting gain of \$79.9 million was reduced by \$1.7 million of professional fees in connection with the CCAA proceedings and presented in the interim consolidated statements of income

(loss) and comprehensive income (loss) and in the condensed statement of income (loss) in management's discussion and analysis of financial condition and results of operations under Restructuring plan activities, net and Recovery of income taxes.

Results from Operating Activities. Results from operating activities during the nine-month period ended October 30, 2021 was \$75.8 million compared to a loss of \$25.8 million for the same period in the prior year. Excluding the impact of the impairment of property and equipment and right-of-use assets, the impact of the Restructuring Plan announced on July 8, 2020, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and software implementation costs, Adjusted operating loss amounted to \$2.4 million in the nine-month period ended October 30, 2021 compared to a loss of \$2.7 million in the same period in the prior year. The improvement in operating results is partially explained by the reduced SG&A required to support approximately 82.1% of sales generated from e-commerce and wholesale and a slightly better gross profit margin.

Finance Costs. Finance costs amounted to \$104 thousand in the nine-months ended October 30, 2021, a decrease of \$3.3 million from the prior year quarter. The interest expense relates to the accounting for lease liabilities has decreased from the prior year period due to the reduction in our store footprint.

Finance Income. Finance income of \$118 thousand is derived mainly from interest on cash on hand and has decreased from the prior year period.

Net income (loss). Net income was \$76.8 million in the nine months ended October 30, 2021 compared to a Net loss of \$28.7 million in the prior year period. Adjusted net loss, which excludes the Restructuring plan activities, the subsidies received from the Canadian government under the COVID-19 Economic Response Plan, the impairment of property and equipment and right-of-use assets, and the costs related to software implementation amounted to \$2.4 million compared to a net loss of \$5.6 million in the prior year period. This \$3.2 million improvement is driven by the same reasons mentioned above in "Results from operating activities".

Fully diluted earnings (loss) per common share. Fully diluted earnings per common share was \$2.79 in the nine months ended October 30, 2021 compared to a fully diluted loss per common share of \$1.10 in the prior year period. Adjusted fully diluted loss per common share, which is Adjusted net income on a fully diluted weighted average shares outstanding basis, was \$0.09, compared to a fully diluted loss of \$0.21 in the prior year period.

EBITDA and Adjusted EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was \$78.8 million in the nine-month period ended October 30, 2021 compared to a negative \$19.6 million in the same period in the prior year representing an improvement of \$98.4 million over the prior year period. Adjusted EBITDA for the nine-month period ended October 30, 2021, which excludes the impact of stock-based compensation expense, the impairment of property and equipment and right-of-use assets, the Restructuring Plan activities, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and costs related to software implementations amounted to \$1.6 million compared to \$4.3 million for the same period in the prior year. The decrease in Adjusted EBITDA of \$2.7 million is an outcome of the restructuring efforts to realign the business model to primarily e-commerce and wholesale distribution.

Summary of quarterly results

Due to seasonality and the timing of holidays, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. The table below presents selected consolidated financial data for the eight most recently completed quarters.

	Fiscal Year 2021				Fiscal Year 2020			Fiscal year 2019
	Third Quarter \$	Second Quarter \$	First Quarter \$	Fourth Quarter \$	Third Quarter \$	Second Quarter \$	First Quarter \$	Fourth Quarter \$
Sales	22,203	18,743	23,249	40,189	26,225	23,031	32,242	73,538
Net income (loss)	(1,864)	75,478	3,221	(27,222)	14,467	2,609	(45,788)	(5,701)
EBITDA	(778)	75,493	4,126	(25,918)	15,295	5,426	(40,367)	(1,097)
Adjusted EBITDA	(308)	(641)	2,505	5,384	3,834	1,365	(935)	9,971
Net earnings (loss) per share:								
Basic	(0.07)	2.87	0.12	(1.04)	0.55	0.10	(1.76)	(0.22)
Fully diluted	(0.07)	2.75	0.12	(1.01)	0.54	0.10	(1.76)	(0.22)
Adjusted fully diluted	(0.01)	(0.07)	0.05	0.15	0.09	(0.06)	(0.26)	0.14
Weighted average number of shares outstanding:								
Basic	26,359,969	26,299,094	26,296,690	26,128,971	26,214,573	26,128,971	26,088,127	26,080,529
Fully diluted	26,359,969	27,455,005	27,400,840	26,925,264	26,767,470	26,925,264	26,088,127	26,080,529
Cash	13,367	12,051	31,321	30,197	21,925	34,285	39,343	46,338
Accounts receivable	4,602	6,986	6,625	6,157	7,669	6,757	4,371	6,062
Prepaid expenses and deposits	4,835	5,580	11,578	14,470	13,400	8,476	4,928	4,542
Inventories	39,802	38,055	29,258	23,468	26,176	24,354	23,450	22,363
Trade and other payables	13,958	12,533	6,154	4,152	3,621	6,460	18,000	20,794

Liquidity and Capital Resources

As at October 30, 2021, we had \$13.4 million of cash, primarily held by major Canadian financial institutions.

Working capital was \$42.3 million as at October 30, 2021, compared to \$62.7 million, excluding liabilities subject to compromise, as at January 30, 2021. The decrease in working capital is substantially explained from the use of cash on hand to pay for the settlement of obligations according to the Restructuring Plan Sanction Order amounting to \$17.6 million.

Our working capital requirements are for the purchase of inventory, payment of payroll and other operating costs, including software purchases and implementation costs. Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. We fund our operating, capital and working capital requirements from a combination of cash on hand and cash provided by operating activities.

As at October 30, 2021, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company, net of \$0.3 million of advances, amounting to \$5.9 million which are expected to be discharged within 12 months.

Cash Flow

A summary of our cash flows provided by (used in) operating, financing and investing activities is presented in the following table:

	For the three months ended		For the nine months ended	
	October 30, 2021 \$	October 31, 2020 \$	October 30, 2021 \$	October 31, 2020 \$
Cash flows provided by (used in):				
Operating activities	1,553	(12,016)	(16,219)	(19,896)
Financing activities	(237)	(250)	(559)	(5,821)
Investing activities	—	(94)	(52)	1,304
Increase (decrease) in cash	1,316	(12,360)	(16,830)	(24,413)

Three months ended October 30, 2021 compared to three months ended October 31, 2020

Cash flows provided by (used in) operating activities. Net cash provided by operating activities amounted to \$1.6 million for the quarter ended October 30, 2021, representing a change of \$13.6 million from the net cash used in operations of \$12.0 million in the third quarter of the prior year. The improvement/increase is primarily due to \$17.6 million paid to the Company's creditors in order to legally emerge from the formal restructuring process and an increase in inventories in anticipation of our peak selling season in the fourth fiscal quarter.

Cash flows used in financing activities. Net cash flows used in financing activities of \$237 thousand during the quarter ended October 30, 2021 represents a reduction of \$13 thousand compared to the prior year third quarter due to a reduction of lease liabilities resulting from the termination of the majority of our store leases in Fiscal 2020.

Cash flows used in investing activities. Cash flows used in investing activities of \$nil thousand in the quarter ended October 30, 2021, compares to the \$94 thousand used in the quarter ended October 31, 2020.

Nine months ended October 30, 2021 compared to nine months ended October 31, 2020

Cash flows used in operating activities. Net cash used in operating activities amounted to \$16.2 million for the nine-month period ended October 30, 2021, representing a change of \$3.7 million from the net cash used in operations of \$19.9 million in the third quarter of the prior year. The decrease is primarily due to \$17.6 million paid to the Company's creditors in order to legally emerge from the formal restructuring process and the increased purchase of inventories in anticipation of our peak selling season.

Cash flows used in financing activities. Net cash flows used in financing activities of \$559 thousand during the nine-month period ended October 30, 2021 represents a reduction of \$5.3 million compared to the prior year third quarter due to a reduction of lease liabilities resulting from the termination of our store leases.

Cash flows provided by (used in) investing activities. Cash flows used in investing activities for the nine-months ended October 30, 2021 was \$52 thousand and compares against \$1.3 million provided by investing activities for the nine-months ended October 31, 2020 primarily due to the repayment of a loan from a Company controlled by an executive employee.

Off-Balance Sheet Arrangements

Other than operating lease obligations, we have no off-balance sheet obligations.

Contractual Obligations and Commitments

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for future purchase obligations. As of October 30, 2021, the Company has financial commitments in connection with the purchase of goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs. Purchase obligations, net of \$0.3 million of advances, amounting to \$5.9 million (January 30, 2021 - \$14.1 million, net of \$6.8 million of advances) are expected to be discharged within 12 months.

Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of financial statements requires us to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on our reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial position, changes in financial position or results of operations. Our significant accounting policies are discussed under Note 3 to our consolidated financial statements for the year ended January 30, 2021 included in our Annual Report on Form 10-K dated April 30, 2021. There have been no material changes to the critical accounting policies and estimates since January 31, 2021, other than as disclosed in Note 3 to the condensed interim consolidated financial statements.

Recently Issued Accounting Standards

Refer to Note 3, “Changes in Accounting Principles” for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the foreign exchange and interest rate risk discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K dated April 30, 2021.

We are exposed to foreign currency exchange risk on purchases of our teas and tea accessories.

A significant portion of our tea and tea accessory purchases are in U.S. dollars as is our revenue from U.S. stores and U.S. e-commerce customers. As a result, our statement of loss and cash flows could be adversely impacted by changes in exchange rates, primarily between the U.S. dollar and the Canadian dollar.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive and Brand Officer and our President, Chief Financial and Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of October 30, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the assessment of our disclosure controls and procedures, our management concluded that our disclosure controls and procedures were effective as of October 30, 2021.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting during our quarter ended October 30, 2021 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.