



DAVIDsTEA Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine-month periods ended November 2, 2024 and October 28, 2023

All expressed in Canadian dollars

NOTICE

The accompanying unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditors.

DAVIDsTEA Inc.

Interim Consolidated Balance Sheets

(Unaudited, and amounts in thousands of Canadian dollars)

	As at	
	November 2, 2024	February 3, 2024
Note	\$	\$
ASSETS		
Current		
Cash	7,942	12,600
Accounts and other receivables	2,974	1,800
Inventories	15,822	15,658
Prepaid expenses and deposits	2,214	5,877
Total current assets	28,952	35,935
Property and equipment	2,710	—
Right-of-use assets	12,702	7,792
Total assets	44,364	43,727
LIABILITIES AND EQUITY		
Current		
Trade and other payables	11,687	8,662
Deferred revenue	3,196	4,882
Current portion of lease liabilities	3,693	2,690
Total current liabilities	18,576	16,234
Non-current portion of lease liabilities	9,914	5,985
Total liabilities	28,490	22,219
Commitments		
EQUITY		
Share capital	4 115,015	114,786
Contributed surplus	1,609	1,936
Deficit	(103,990)	(98,486)
Accumulated other comprehensive income	3,240	3,272
Total equity	15,874	21,508
Total liabilities and equity	44,364	43,727

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

DAVIDsTEA Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited and amounts in thousands of Canadian dollars, except share and per share information)

	Note	For the three-months ended		For the nine-months ended	
		November 2,	October 28,	November 2,	October 28,
		2024	2023	2024	2023
		\$	\$	\$	\$
Sales	8	14,039	12,145	38,565	36,292
Cost of sales	5	6,815	7,539	20,270	22,428
Gross profit		7,224	4,606	18,295	13,864
Selling, general and administration expenses	6	8,700	8,325	23,860	23,955
Results from operating activities		(1,476)	(3,719)	(5,565)	(10,091)
Finance costs		185	143	450	502
Finance income		(86)	(132)	(306)	(628)
Net loss		(1,575)	(3,730)	(5,709)	(9,965)
Other comprehensive income (loss):					
Cumulative translation adjustment		(13)	35	(32)	42
Other comprehensive income (loss), net of tax		(13)	35	(32)	42
Total comprehensive loss		(1,588)	(3,695)	(5,741)	(9,923)
Net loss per share:					
Basic	7	(0.06)	(0.14)	(0.21)	(0.37)
Fully diluted	7	(0.06)	(0.14)	(0.21)	(0.37)
Weighted average number of shares outstanding:					
Basic	7	26,930,180	26,756,842	26,896,574	26,694,288
Fully diluted	7	26,930,180	26,756,842	26,896,574	26,694,288

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

DAVIDsTEA Inc.

Interim Consolidated Statements of Cash Flows

(Unaudited and amounts in thousands of Canadian dollars)

	Note	For the three-months ended		For the nine-months ended	
		November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss		(1,575)	(3,730)	(5,709)	(9,965)
Items not affecting cash and other reconciling items:					
Depreciation of property and equipment		28	107	28	262
Amortization of intangible assets		—	138	—	415
Amortization of right-of-use assets		690	657	2,000	1,967
Reversal of impairment of property and equipment, net		(2,130)	—	(1,358)	—
Interest on lease liabilities		185	129	419	392
Gain on Lease Termination		—	(35)	—	(35)
Amortization of financing fees		—	16	30	110
Stock-based compensation expense		16	166	142	586
Sub-total		(2,786)	(2,552)	(4,448)	(6,268)
Net change in non-cash working capital balances related to operations		5,451	1,930	3,556	(116)
Cash flows provided by (used in) operating activities		2,665	(622)	(892)	(6,384)
FINANCING ACTIVITIES					
Payment of lease liabilities		(825)	(789)	(2,385)	(2,330)
Cash flows used in financing activities		(825)	(789)	(2,385)	(2,330)
INVESTING ACTIVITIES					
Additions to property and equipment		(608)	(626)	(1,381)	(1,438)
Additions to intangible assets		—	(422)	—	(554)
Cash flows used in investing activities		(608)	(1,048)	(1,381)	(1,992)
Increase (decrease) in cash during the period		1,232	(2,459)	(4,658)	(10,706)
Cash, beginning of the period		6,710	14,193	12,600	22,440
Cash, end of period		7,942	11,734	7,942	11,734
Supplemental Information					
Cash paid for:					
Interest (classified as financing activities)		185	146	448	424
Cash received for:					
Interest (classified as operating activities)		87	132	306	628

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

DAVIDsTEA Inc.

Interim Consolidated Statements of Equity (Deficiency)

(Unaudited and amounts in thousands of Canadian dollars)

	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance, February 3, 2024	114,786	1,936	(98,486)	3,272	21,508
Net loss for the nine months ended November 2, 2024	—	—	(5,709)	—	(5,709)
Other comprehensive loss	—	—	—	(32)	(32)
Total comprehensive loss	—	—	(5,709)	(32)	(5,741)
Common shares issued on vesting of restricted stock units	229	(469)	205	—	(35)
Stock-based compensation expense	—	142	—	—	142
Balance, November 2, 2024	<u>115,015</u>	<u>1,609</u>	<u>(103,990)</u>	<u>3,240</u>	<u>15,874</u>
Balance, January 28, 2023	114,163	2,530	(85,175)	3,177	34,695
Net loss for the nine months ended October 28, 2023	—	—	(9,965)	—	(9,965)
Other comprehensive loss	—	—	—	42	42
Total comprehensive loss	—	—	(9,965)	42	(9,923)
Common shares issued on vesting of restricted stock units	308	(629)	222	—	(99)
Stock-based compensation expense	—	586	—	—	586
Balance, October 28, 2023	<u>114,471</u>	<u>2,487</u>	<u>(94,918)</u>	<u>3,219</u>	<u>25,259</u>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

DAVIDsTEA Inc.

Notes to Interim Consolidated Financial Statements

For the three and nine-month periods ended November 2, 2024 and October 28, 2023

(Unaudited and amounts in thousands of Canadian dollars, except share and per share information)

1. CORPORATE INFORMATION

The unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary, DAVIDsTEA (USA) Inc., (collectively, the “Company”) for the three and nine-month periods ended November 2, 2024 and October 28, 2023 were approved and authorized for issue in accordance with a resolution of the Board of Directors on December 17, 2024. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the TSX Venture Exchange under the symbol “DTEA”. The Company’s head office is located at 5775, Ferrier Street, Town of Mount-Royal, Quebec, Canada, H4P 1N3.

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, and 20 company-owned storefronts across Canada. The Company offers 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. With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company launches seasonally driven “collections” with a mission of making tea fun and accessible to all.

Sales fluctuate from quarter to quarter. Sales are traditionally highest in the fourth fiscal quarter due to the year-end holiday season and tend to be lowest in the second and third fiscal quarters because of lower customer engagement during the summer months.

All monetary amounts shown, unless otherwise noted, are in thousands of Canadian dollars except share and per share information.

2. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). Accordingly, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended February 3, 2024, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. In management’s opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies and methods of computation as outlined in Note 3 of the audited consolidated financial statements for the year ended February 3, 2024.

Going Concern Uncertainty

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These consolidated financial statements as at and for the quarter ended November 2, 2024 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported revenues and expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material. In its assessment to determine if the going concern assumption is appropriate, management considers all data available regarding the future for at least, without limiting to, the next twelve months.

For the three and nine-month periods ended November 2, 2024, the Company reported a net loss of \$1.6 million and \$5.7 million, respectively. Also, during the nine-month period ended November 2, 2024, the Company's cash balance decreased by \$4.7 million to \$7.9 million. The Company uses its cash on hand and cash generated from operations to fund its activities and to meet any future financial obligations as it does not have any third-party financing to draw upon.

The Company's ability to continue as a going concern is dependent on its ability to maintain its revenue growth recently experienced, reduce costs that at minimum are commensurate with its revenues and manage its working capital. There is, however, no assurance that such events will occur and as a result, this indicates the existence of a material uncertainty that may cast a significant doubt on the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of condensed interim consolidated financial statements requires management to make estimates and assumptions using judgment that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

In preparing these unaudited condensed interim consolidated financial statements, critical judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those referred to in Note 4 of the audited consolidated financial statements for the year ended February 3, 2024.

4. SHARE CAPITAL

Issued and Outstanding

	<u>As at</u>	
	<u>November 2, 2024</u>	<u>February 3, 2024</u>
Share Capital	\$ 115,015	\$ 114,786
Common Shares	26,948,465	26,848,737

During the three and nine-month period ended November 2, 2024, 29,386 and 99,728 common shares, respectively (October 28, 2023 – 32,141 and 155,558 common shares, respectively) were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of \$27 and \$229, net of tax respectively (October 28, 2023 – \$29 and \$308, net of tax respectively) and a reduction in contributed surplus of \$56 and \$469, respectively (October 28, 2023 – \$60 and \$629, respectively).

Stock-based compensation

As at November 2, 2024, 1,044,697 (October 28, 2023 – 879,124) common shares remain available for issuance under the 2015 Omnibus Plan.

No stock options were granted during the three-month periods ended November 2, 2024 and October 28, 2023.

A summary of the status of the Company's RSU plan and changes during the nine-month period are presented below.

	For the nine-months ended			
	November 2, 2024		October 28, 2023	
	RSUs outstanding	Weighted average fair value per unit (1)	RSUs outstanding	Weighted average fair value per unit (1)
	#	\$	#	\$
Outstanding, beginning of period	935,872	1.93	1,438,839	2.25
Granted	50,000	0.16	50,000	0.43
Forfeitures	(30,836)	1.38	(84,548)	1.82
Vested	(99,728)	2.30	(155,558)	1.98
Vested, withheld for tax	(103,851)	2.30	(161,983)	1.98
Outstanding, end of period	<u>751,457</u>	<u>1.74</u>	<u>1,086,750</u>	<u>2.28</u>

(1) Weighted average fair value per unit as at date of grant

5. COST OF SALES

Included in cost of sales are the following expenses:

	For the three-months ended		For the nine-months ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
	\$	\$	\$	\$
Cost of goods sold	3,923	4,391	11,289	11,943
Retail occupancy costs (1)	794	726	2,309	2,283
Delivery costs	914	1,150	2,842	3,680
Warehouse salaries, handling and other costs	1,184	1,272	3,830	4,522
	<u>6,815</u>	<u>7,539</u>	<u>20,270</u>	<u>22,428</u>

(1) During the three and nine-month periods ended November 2, 2024, cost of sales includes variable rent of \$283 and \$802 respectively (October 28, 2023 - \$268 and \$903 respectively) and amortization of right-of-use assets of \$508 and \$1,496 respectively (October 28, 2023 - \$452 and \$1,356 respectively).

6. SELLING, GENERAL AND ADMINISTRATION EXPENSES

Included in selling, general and administration expenses are the following expenses:

	For the three-months ended		For the nine-months ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
	\$	\$	\$	\$
<u>Ongoing expenses</u>				
Wages, salaries and employee benefits	2,769	2,879	8,552	8,466
IT expenses	1,801	1,840	5,461	5,378
Marketing expenses	1,355	1,474	2,922	3,495
Professional and consulting fees	31	208	1,044	740
Director & officer and other insurance	192	262	666	884
Credit card fees	215	193	600	632
Selling Supplies	114	197	362	531
Stock-based compensation	16	166	142	586
Amortization of intangible assets	—	138	—	415
Depreciation of property and equipment	28	107	28	262
Amortization right-of-use asset	20	42	20	126
Other ongoing selling, general and administration	572	635	951	1,526
Sub-total	7,113	8,141	20,748	23,041
<u>Non-recurring expenses</u>				
Amounts due under onerous IT contracts (1)	3,112	—	3,112	—
Reversal of impairment of property and equipment, net (2)	(2,130)	—	(1,358)	—
Software implementation and configuration costs	639	—	639	—
Costs related to internalizing fulfillment services	—	219	—	1,029
Professional fees incurred (reversed) to secure Financing	(137)	—	536	—
Legal and regulatory settlement amounts	—	—	—	(180)
Head office relocation	88	—	88	—
Employee separation costs	15	—	95	—
Transition to TSX Venture Exchange	—	—	—	100
Gain on lease termination	—	(35)	—	(35)
Sub-total	1,587	184	3,112	914
	8,700	8,325	23,860	23,955

- (1) During the quarter ended November 2, 2024, the Company changed certain of its IT service providers. As a result, certain existing IT contracts maturing next fiscal year became onerous which led to the recognition of a loss of \$3,112, where the unavoidable costs of meeting these obligations exceeded the future economic benefits expected to be received from these contracts.
- (2) Also, during the quarter ended November 2, 2024, and as a result of the Company's change of certain IT service providers, the Company expects now to reduce its IT cost structure in the future and therefore improve the future profitability of certain CGUs. This has triggered management to perform an interim impairment test of its non-financial assets with its CGUs, mainly with respect to property and equipment in retail stores. The recoverable amount of each CGU or retail store was assessed by taking a fair value less cost of disposal method and calculated based on an EBITDA multiple. The resulting recoverable amount was then compared to the carrying amount of each CGU or retail store which led the Company to reverse certain property and impairment related mainly to leasehold improvements expensed in the prior year and current year as well as other equipment acquired in the warehouse.

A reversal of previously impaired property and equipment of \$2,130 and \$1,358 for the three and nine-month periods, respectively, was recorded under the caption Selling, general and administrative expenses in the statement of loss and comprehensive income.

7. LOSS PER SHARE

The following reflects the loss and share data used in the basic and diluted EPS computations:

	<u>For the three-months ended</u>		<u>For the nine-months ended</u>	
	<u>November 2, 2024</u>	<u>October 28, 2023</u>	<u>November 2, 2024</u>	<u>October 28, 2023</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net loss for basic EPS	(1,575)	(3,730)	(5,709)	(9,965)
Weighted average number of shares outstanding:				
Basic	26,930,180	26,756,842	26,896,574	26,694,288
Fully diluted	26,930,180	26,756,842	26,896,574	26,694,288
Net loss per share:				
Basic	(0.06)	(0.14)	(0.21)	(0.37)
Fully diluted	(0.06)	(0.14)	(0.21)	(0.37)

For the three and nine-months ended November 2, 2024 and October 28, 2023, because of the net loss recorded during the period, the RSUs as disclosed in note 4 are anti-dilutive.

8. SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has two operating segments, Canada, and the U.S., that derive their revenues from various distribution channels including online, retail and wholesale. The Company's Chief Executive and Brand Officer and President, Chief Financial and Operations Officer (the chief operating decision makers or "CODM") make decisions about resources to be allocated to the segments and assesses performance, and for which discrete financial information is available.

The Company derives revenue from the following products:

	<u>For the three-months ended</u>		<u>For the nine-months ended</u>	
	<u>November 2, 2024</u>	<u>October 28, 2023</u>	<u>November 2, 2024</u>	<u>October 28, 2023</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Tea	12,735	11,034	34,824	32,524
Tea accessories	948	847	2,764	3,175
Food and beverages	356	264	977	593
	<u>14,039</u>	<u>12,145</u>	<u>38,565</u>	<u>36,292</u>

All property and equipment, right-of-use assets and intangible assets are located in Canada.

Results from operating activities before corporate expenses per country are as follows:

	For the three-months ended			For the nine-months ended		
	November 2, 2024			November 2, 2024		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
Sales	12,007	2,032	14,039	33,366	5,199	38,565
Cost of sales	6,032	783	6,815	18,107	2,163	20,270
Gross profit	5,975	1,249	7,224	15,259	3,036	18,295
Selling, general and administration expenses (allocated)	2,874	290	3,164	7,518	759	8,277
Results from operating activities before undemoted	3,101	959	4,060	7,741	2,277	10,018
Selling, general and administration expenses (non-allocated)			5,536			15,583
Results from operating activities			(1,476)			(5,565)
Finance costs			185			450
Finance income			(86)			(306)
Net loss			(1,575)			(5,709)

	For the three-months ended			For the nine-months ended		
	October 28, 2023			October 28, 2023		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
Sales	10,553	1,592	12,145	31,129	5,163	36,292
Cost of sales	6,665	874	7,539	19,436	2,992	22,428
Gross profit	3,888	718	4,606	11,693	2,171	13,864
Selling, general and administration expenses (allocated)	2,576	407	2,983	6,795	925	7,720
Results from operating activities before undemoted	1,312	311	1,623	4,898	1,246	6,144
Selling, general and administration expenses (non-allocated)			5,342			16,235
Results from operating activities			(3,719)			(10,091)
Finance costs			143			502
Finance income			(132)			(628)
Net loss			(3,730)			(9,965)