



**DAVIDsTEA INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the fiscal years ended February 3, 2024 and January 28, 2023**

**May 2, 2024**

# Independent auditor's report

To the Shareholders and the Board of Directors of **DAVIDsTEA Inc.**

## Opinion

We have audited the consolidated financial statements of DavidsTea Inc. [the "Company"], which comprise the consolidated balance sheets as at February 3, 2024 and January 28, 2023 and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 3, 2024 and January 28, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$13.8 million and used \$4.6 million in cash for its operating activities, during the year ended February 3, 2024. As stated in Note 2, these events or conditions, along with other matters set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addresses the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



#### *Impairment of non-financial assets*

As at February 3, 2024, the Company had intangible software assets, property and equipment and right-of-use assets ["ROU"] amounting to \$1.7 million, \$1.7 million and \$7.8 million, respectively. As disclosed in Note 3, Significant Accounting Policies, management assesses at each reporting period whether there are indications that the carrying amount of non-financial assets may not be recoverable. As at February 3, 2024, the Company determined that impairment indicators existed and determined the recoverable amount ["RA"] for each cash generating unit ["CGU"] to which these assets belong. When the RA derived a lower result than the carrying amount for a specific CGU, the impairment loss was allocated to the assets in the CGU proportionally on the basis of the carrying amount of each asset in the CGU, without reducing the carrying amount of an asset below the higher of its recoverable amount and zero.

The Company estimated that there is an impairment risk associated to each CGU taking into consideration the corporate costs and assets' allocations. Then, the Company estimated the RA of each of the non-financial assets within the CGU as well as the RA of the corporate assets. As a result, the Company recorded an impairment charge of \$3.4 million as disclosed in notes 7 and 8. On the other hand, the Company determined that none of its ROU was further impaired based on their fair value less cost of disposal ["FVLCD"] using market available data for discount rates and other lease terms.

Auditing the Company's impairment assessment for non-financial assets is challenging because of the subjective auditor judgment necessary in evaluating the assumptions used in developing the estimated RA of these non-financial assets.

#### *How our audit addressed the key audit matter*

To evaluate the estimated recoverable amount for the non-financial assets, our audit procedures included, amongst others:

- For intangible assets, assessing, with the assistance of our valuation specialists, the estimated RA calculated based on the FVLCD from a market participant or buyer perspective, taking into consideration the CGU's results after corporate costs allocations and the future use of the software assets;
- For property and equipment, assessing their RA based on their resale fair value, net of cost of disposals, including the hypothetical fair value of leasehold improvements for a market participant;
- With the assistance of our internal valuation specialists, evaluating the Company's key assumptions used in determining the FVLCD of the ROU assets, including the comparable rent fair value and lease discount rates, by comparing the inputs to available market data and assessing the mathematical accuracy of the calculation.

Finally, we assessed the accuracy and adequacy of the Company's disclosures included in Notes 7, 8 and 9 of the notes to the consolidated financial statements.

#### **Other information**

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

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

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

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Wajih Chemali.

*Ernst & Young LLP*<sup>1</sup>

Montréal, Canada  
May 2, 2024

<sup>1</sup> CPA auditor, public accountancy permit no. A121006



# DAVIDsTEA Inc.

## Consolidated Balance Sheets

Amounts in thousands of Canadian dollars

		As at	
		February 3, 2024	January 28, 2023
	Note	\$	\$
<b>ASSETS</b>			
Current			
Cash		12,600	22,440
Accounts and other receivables	5	1,800	3,258
Inventories	6	15,658	19,522
Prepaid expenses and deposits		5,877	5,839
Total current assets		35,935	51,059
Property and equipment	7	—	510
Intangible assets	8	—	1,679
Right-of-use assets	9	7,792	9,345
Total assets		43,727	62,593
<b>LIABILITIES AND EQUITY</b>			
Current			
Trade and other payables	10	8,662	12,310
Deferred revenue	11	4,882	5,363
Current portion of lease liabilities	9	2,690	2,543
Total current liabilities		16,234	20,216
Non-current portion of lease liabilities	9	5,985	7,682
Total liabilities		22,219	27,898
Commitments	12		
<b>EQUITY</b>			
Share capital	13	114,786	114,163
Contributed surplus		1,936	2,530
Deficit		(98,486)	(85,175)
Accumulated other comprehensive income		3,272	3,177
Total equity		21,508	34,695
Total liabilities and equity		43,727	62,593

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

On behalf of the Directors:

By: *(signed)* Jane Silverstone Segal  
Chair of the Board and Director

By: *(signed)* Pat De Marco  
Lead Director

# DAVIDsTEA Inc.

## Consolidated Statements of Loss and Comprehensive Loss

Amounts in thousands of Canadian dollars, except share information

	Note	For the year ended	
		February 3, 2024	January 28, 2023
		\$	\$
<b>Sales</b>	19	<b>60,643</b>	83,026
Cost of sales	14	<b>36,419</b>	54,714
<b>Gross profit</b>		<b>24,224</b>	28,312
Selling, general and administration expenses	14	<b>38,173</b>	42,864
<b>Results from operating activities</b>		<b>(13,949)</b>	(14,552)
Finance costs	15	<b>649</b>	730
Finance income		<b>(771)</b>	(414)
<b>Net loss</b>		<b>(13,827)</b>	(14,868)
<b>Other comprehensive income:</b>			
Cumulative translation adjustment		<b>95</b>	232
<b>Other comprehensive income, net of tax</b>		<b>95</b>	232
<b>Total comprehensive loss</b>		<b>(13,732)</b>	(14,636)
<b>Net loss per share:</b>			
Basic	17	<b>(0.52)</b>	(0.56)
Fully diluted	17	<b>(0.52)</b>	(0.56)
<b>Weighted average number of shares outstanding:</b>			
Basic	17	<b>26,726,100</b>	26,530,443
Fully diluted	17	<b>26,726,100</b>	26,530,443

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

# DAVIDsTEA Inc.

## Consolidated Statements of Cash Flows

Amounts in thousands of Canadian dollars

	Note	For the year ended	
		February 3, 2024	January 28, 2023
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss		(13,827)	(14,868)
Items not affecting cash and other reconciling items:			
Depreciation of property and equipment	7	358	320
Amortization of intangible assets	8	606	555
Amortization of right-of-use assets	9	2,590	2,620
Impairment of property and equipment, intangible assets and right-of-use assets	7,8,9	3,379	257
Interest on lease liabilities	9	524	637
Gain on Lease Termination	9	(38)	—
Amortization of financing fees		125	79
Stock-based compensation expense	13	677	1,413
Sub-total		(5,606)	(8,987)
Net change in non-cash working capital balances related to operations		993	9,475
Cash flows provided by (used in) operating activities		(4,613)	488
<b>FINANCING ACTIVITIES</b>			
Payment of lease liabilities	9	(3,073)	(3,026)
Cash flows used in financing activities		(3,073)	(3,026)
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment	7	(1,516)	(129)
Additions to intangible assets	8	(638)	—
Cash flows used in investing activities		(2,154)	(129)
Decrease in cash during the year		(9,840)	(2,667)
<b>Cash, beginning of the year</b>		<b>22,440</b>	<b>25,107</b>
<b>Cash, end of the year</b>		<b>12,600</b>	<b>22,440</b>
<b>Supplemental Information</b>			
Cash paid for:			
Interest (classified as financing activities)		524	637
Cash received for:			
Interest (classified as operating activities)		715	375

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

**DAVIDsTEA Inc.**  
**Consolidated Statements of Equity**  
*Amounts in thousands of Canadian dollars*

	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance, January 28, 2023	114,163	2,530	(85,175)	3,177	34,695
Net loss for the year ended February 3, 2024	—	—	(13,827)	—	(13,827)
Other comprehensive income	—	—	—	95	95
Total comprehensive (loss) income	—	—	(13,827)	95	(13,732)
Common shares issued on vesting of restricted stock units	623	(1,271)	516	—	(132)
Stock-based compensation expense	—	677	—	—	677
Balance, February 3, 2024	<u>114,786</u>	<u>1,936</u>	<u>(98,486)</u>	<u>3,272</u>	<u>21,508</u>
Balance, January 29, 2022	113,605	2,256	(70,491)	2,945	48,315
Net loss for the year ended January 28, 2023	—	—	(14,868)	—	(14,868)
Other comprehensive income	—	—	—	232	232
Total comprehensive (loss) income	—	—	(14,868)	232	(14,636)
Common shares issued on vesting of restricted stock units	558	(1,139)	184	—	(397)
Stock-based compensation expense	—	1,413	—	—	1,413
Balance, January 28, 2023	<u>114,163</u>	<u>2,530</u>	<u>(85,175)</u>	<u>3,177</u>	<u>34,695</u>

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

# DAVIDsTEA Inc.

## Notes to Consolidated Financial Statements

For the years ended February 3, 2024 and January 28, 2023

*Amounts in thousands of Canadian dollars, except per share amounts and where otherwise indicated*

### 1. CORPORATE INFORMATION

The consolidated financial statements of DAVIDsTEA Inc. and its wholly-owned subsidiary, DAVIDsTEA (USA) Inc. (collectively, the “Company”) for the year ended February 3, 2024 were approved and authorized for issue in accordance with a resolution of the Board of Directors on May 2, 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 registered office is located at 5430 Ferrier Street, Town of Mount-Royal, Québec, Canada, H4P 1M2.

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](http://www.davidstea.com) and the Amazon Marketplace, its wholesale customers, and 18 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.

#### *Move to the TSX Venture Exchange and voluntary delisting from Nasdaq*

On October 28, 2022, the Company received a letter (the “Letter”) from The Nasdaq Stock Market LLC (“Nasdaq”) notifying the Company that, for the previous 30 consecutive business days, the closing bid price per share of the Company’s common shares was below the US \$1.00 minimum bid price requirement for continued listing on The Nasdaq Global Market, as required by Nasdaq Listing Rule 5550(a)(2) (the “Bid Price Rule”). As a result, the Company was notified by Nasdaq that it was not in compliance with the Bid Price Rule. Nasdaq provided the Company with 180 calendar days, or until April 26, 2023, to regain compliance with the Bid Price Rule.

Following receipt of the Letter, the Company’s management reviewed the Company’s options in order to regain compliance with the Bid Price Rule and concluded that the Company would not be able to regain compliance by the required deadline set forth in the Letter. As a result, after careful consideration, the Board of Directors determined it was in the overall best interests of the Company to delist its common shares from Nasdaq and to list the common shares on a stock exchange in Canada. The decision was made based on several factors, including the Board of Directors’ assessment of the probability of the Company regaining compliance with the Bid Price Rule and an analysis of the benefits of continued Nasdaq listing weighed against the regulatory burden, management time commitment for compliance and reporting activities and significant costs associated with maintaining continued Nasdaq listing.

On March 27, 2023 the Company announced that it had been accepted for listing on the TSX Venture Exchange (“TSXV”) and that the Company’s common shares would commence trading in Canadian dollars on the TSXV on April 3, 2023 under the ticker symbol “DTEA”. On the same day, the Company notified Nasdaq of its intention to voluntarily delist its common shares from The Nasdaq Global Market.

The Company’s common shares commenced trading on the TSXV on April 3, 2023. During a two-week interim period from April 3 to April 14, 2023, the Company’s common shares traded on both the TSXV and The Nasdaq Global Market.

On April 7, 2023, the Company filed Form 25 with the United States Securities and Exchange Commission (the “SEC”) giving effect to the delisting from Nasdaq of its common shares and the deregistration of the common shares under Section 12(b) of the *Securities Exchange Act of 1934*, as amended (the “Exchange Act”). The Company’s common shares ceased trading on Nasdaq at the close of trading on April 14, 2023.

On April 17, 2023, the Company filed Form 15 with the SEC to suspend the Company’s duty to file reports under Sections 13(a) and 15(d) of the Exchange Act and to deregister its common shares under Section 12(b) of the Exchange Act.

## **2. BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies were consistently applied to all periods presented.

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 February 3, 2024 covers a 53-week period, and the year ended January 28, 2023 covers a 52-week period.

### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, DAVIDsTEA (USA) Inc. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated.

### **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 year ended February 3, 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 year ended February 3, 2024, the Company reported a net loss of \$13.8 million and used \$4.6 million of cash from its operating activities. Also, during the year, the Company’s cash balance decreased by \$9.8 million from \$22.4 million as at January 28, 2023 to \$12.6 million as at February 3, 2024. The Company’s working capital accounts’ balances suffered a similar decrease. The Company does not currently have any third-party financing available with which to meet any future financial obligations including its commitments disclosed in note 12.

The Company’s ability to continue as a going concern is dependent on its ability to stabilize its business from unfavourable revenue decline and secure third-party financing to support its operations. 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.

### **Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is the parent Company’s functional currency.

### **3. MATERIAL ACCOUNTING POLICIES**

#### **Cash**

Cash on the consolidated balance sheet comprises cash at banks and on hand.

#### **Accounts and other receivables**

Receivables primarily represent amounts due from credit / debit card processors and wholesale customers and are accounted for at amortized cost, less any provision for doubtful accounts which is based on management's best estimate of expected credit losses.

#### **Inventories**

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Costs include the cost of purchase and transportation costs that are directly incurred to bring the inventories to their present location, and duties. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any incremental costs necessary to make the sale.

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

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

#### **Property and equipment**

Property and equipment are initially recorded at cost and are depreciated over their useful economic life. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly related to bringing the asset to a working condition for its intended use. The residual values, useful lives, and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. All repair and maintenance costs are recognized in net loss as incurred.

Depreciation of an asset begins once it becomes available for use. Depreciation is charged to income for both furniture and equipment as well as computer hardware on a straight-line basis over the asset's useful life, which is five and three years, respectively.

Leasehold improvements are depreciated on a straight-line basis over the lesser of the useful economic life and the lease term.

Any gain or loss arising on the disposal or derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of loss when the asset is derecognized.

#### **Intangible assets**

Intangible assets consist of computer software, trademarks, and patents.

Intangible assets are initially recorded at cost. Intangible assets with finite lives, consisting of computer software, are amortized over their useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of loss in Selling, general and administrative expenses.

Any gain or loss arising on the disposal or derecognition of the intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset) is included in our consolidated statement of loss when the intangible asset is derecognized.

## **Leased assets**

### *Right-of-use assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, which includes the initial amount of lease liabilities adjusted for any initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. In addition, the right-of-use assets are subject to impairment and adjusted for any remeasurement of lease liabilities, to the extent that there is a balance of right-of-use asset at the time the change in lease liability occurs. Amortization expense is recorded in selling, general and administrative expense.

### *Lease liabilities*

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest accretion is recorded as interest expense in finance costs. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

### *Short-term leases and leases of low-value assets*

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

## **Impairment**

### **i. Impairment of financial assets**

The Company applies the expected credit loss model to its trade receivables. It requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. The Company applies the simplified approach for trade receivables and calculates expected credit losses based on lifetime expected credit losses. Generally, expected credit losses have been immaterial given the Company transacts with large wholesalers with a reasonable credit rating while payments for online and retail stores' sales are made at the time of the sale or upfront, leaving only receivables from reputable large credit card companies with low credit risk.

## **ii. Impairment of non-financial assets**

The Company assesses all cash-generating units (“CGU”), at each reporting date, for indications that the carrying amount may not be recoverable. If any indication exists, the Company estimates the CGU’s recoverable amount, which is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. When the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss shall be allocated to reduce the carrying amount of the assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. However, the Company shall not reduce the carrying amount of an asset below the highest of its fair value less cost of disposal, its value in use, and zero.

In determining fair value less costs of disposal, recent market transactions are considered as well as market available data. If no such transactions or data can be identified, an appropriate valuation model is used such as an earnings’ multiple or a discounted cash flows model. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate applied to an asset or CGU is the weighted average cost of capital (“WACC”). Management considers factors such as risk-free rate, equity risk premium, size premium, specific business risk premium and cost of debt to derive the WACC.

The Company bases its impairment calculation on detailed budgets and forecast calculations as well as on market available data for specific assets within a CGU when such CGU is impaired, which are prepared separately for each of the Company’s CGUs to which the individual assets are allocated.

Based on the management of operations, the Company has defined each of the commercial retail stores in which it carries out its activities as a CGU; in addition, wholesale and e-commerce were designated as separate CGUs. The Company’s non-financial assets, including corporate assets, are allocated to each CGU on a reasonable and consistent manner.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment may no longer exist or may have decreased and if there has been a change in the assumptions used to determine the asset’s recoverable amount. The reversal is limited to the extent that an asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Such reversal is recognized in the consolidated statement of loss.

## **Provisions**

Provisions are recognized when the Company has a present obligation because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in our consolidated statement of loss, net of any reimbursement. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

## **Share capital**

### ***Common shares***

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

### ***Stock-based compensation***

Under the Company's 2015 Omnibus Equity Incentive Plan (the "2015 Omnibus Plan"), options to purchase common shares are issued to directors and employees. Options may not be granted with an exercise price less than the fair value of the underlying shares at the grant date. The awards have no cash settlement alternatives. The vesting requirements are typically service-based and the options normally have a contractual life of seven years.

The fair value of stock-based compensation awards granted to employees and directors is measured at the grant date using the Black Scholes option pricing model. Measurement inputs include the share price of the underlying shares on the measurement date, the exercise price of the option, the expected volatility (based on historical volatility of the Company), the weighted average expected life of the option (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

The value of the compensation expense is recognized over the vesting period of the stock options as an expense included in selling and general administration expenses, with a corresponding increase to contributed surplus in equity. The amount recognized as an expense is adjusted to reflect the Company's best estimate of the number of awards that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

Any consideration paid by plan participants on the exercise of stock options and the previously recognized compensation cost of the options exercised included in contributed surplus are credited to share capital. Under the 2015 Omnibus Plan, selected employees and directors are granted restricted stock units ("RSUs") where each RSU has a value equal to one common share. The compensation expense is recorded at the fair value of the Company's common shares at the grant date over the vesting period (generally one to three years) with a corresponding credit to contributed surplus since the 2015 Omnibus Plan is considered an equity-settled RSU plan. Upon vesting of the RSUs, share capital is credited, net of the withholding tax payable by the participant, with a corresponding debit to contributed surplus, any difference is recognized in retained earnings (deficit).

### **Revenue recognition**

Revenue is recognized when control of goods has been transferred at the amount of consideration to which the Company expects to be entitled. Revenue is recognized on e-commerce sales when merchandise is delivered to the consumer. Revenue from retail sales is recorded upon delivery to the customer. Revenues are recorded net of discounts, rebates, estimated returns, sales taxes and amounts deferred related to the issuance of Frequent Steeper loyalty and rewards program.

The Frequent Steeper loyalty and rewards program allows customers to redeem points earned in return for loose-leaf tea. Points expire after 365 days of no activity. Consideration is allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices. The fair value of Frequent Steeper points and offers are determined based on the estimated selling price of the loose-leaf tea, net of points and offers we expect will not be redeemed. The relative selling price of points and offers issued are recorded as deferred revenue. Offers for loose-leaf tea are recognized as revenue on the earlier of redemption and expiry. On an ongoing basis, the Company monitors historical redemption rates. Frequent Steeper redemptions are included with total sales in our consolidated statement of net loss.

Revenue from the Company's wholesale business is recognized upon receipt of products by the customer. Wholesale revenue is recorded net of discounts, returns and certain advertising allowances.

Gift cards sold are recorded as deferred revenue and revenue is recognized at the time of redemption or in accordance with the Company's accounting policy for breakage. Breakage income represents the estimated value of gift cards that are not expected to be redeemed by customers and is determined in proportion to the pattern of rights exercised by the customer. Gift card breakage is included in sales in the consolidated statement of loss.

### **Finance income**

Interest income is recognized as interest accrues using the effective interest method.

## **Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in our consolidated statement of loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income (loss).

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company uses the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities for all temporary differences caused when the tax bases of assets and liabilities differ from their carrying amounts reported in the consolidated financial statements. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## **Net loss per share**

Net loss per share is calculated using the weighted average number of shares outstanding during the year.

The diluted loss per share is calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the exercise of stock options and RSUs, if dilutive. For stock options, the number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized stock-based compensation, which is considered to be assumed proceeds, are used to purchase common shares at the average market price during the reporting period. When the Company shows a net loss for a period, the effect of RSUs or options become anti-dilutive.

## **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or liability is recognized initially (at settlement date) at its fair value and, in the case of a financial asset or liability not at fair value through profit or loss, plus or minus transaction costs that are directly attributable to the acquisition or issue of the instrument.

After initial recognition, financial assets are measured at amortized cost or fair value.

The Company classifies its financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement.

Classifications that the Company has used for financial assets include:

- (a) Amortized Cost - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes trade, credit card and cash clearing receivables and other receivables (excluding sales tax receivable). Gains and losses are recognized in net loss in the period that the asset becomes impaired; and

- (b) FVTPL - financial assets which are classified as fair value through profit and loss. This includes cash.

Classifications that the Company has used for financial liabilities include:

- (a) Amortized cost - non-derivative financial liabilities measured at amortized cost with gains and losses recognized in net loss in the period that the liability is no longer recognized. This includes Trade and payables and accrued liabilities as well as wages, salaries and employee benefits payable.

### **Foreign currency translation**

Revenues, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Unrealized and realized translation gains and losses are reflected in the consolidated statement of loss.

The assets and liabilities of the Company's U.S. wholly-owned subsidiary, whose functional currency is the U.S. dollar, are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Differences arising from the exchange rate changes are included in Other comprehensive income ("OCI") in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other OCI in the cumulative translation account and reclassified from equity to our consolidated statement of loss on disposal of the net investment.

## **4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses as well as information about significant estimates are discussed in the following section.

### ***Key sources of estimation uncertainty***

Key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

#### **i. Recoverability and impairment of non-financial assets**

In Fiscal 2023, the continued decrease in revenues of the Company as well as the incurred significant net loss for the year ended February 3, 2024 are considered indicators of impairment. The Company performed an assessment of recoverability for the non-financial assets related to each CGU. Significant assumptions affecting the recoverable amount calculated for each asset or group of assets within a CGU include the lease discount rate and \$/sqft for right-of-use assets and the fair value less cost of disposal for intangible assets and property and equipment from a market participant point of view such as the possible resale value of certain property and equipment and future use and fair value for a market participant of leasehold improvements. These assumptions used by the Company require estimation and are sources of estimation uncertainty.

## 5. ACCOUNTS AND OTHER RECEIVABLES

	As at	
	February 3, 2024	January 28, 2023
	\$	\$
Trade receivables	818	1,743
Credit and debit card clearing receivables	468	790
Other receivables	514	725
	<u>1,800</u>	<u>3,258</u>

## 6. INVENTORIES

	As at	
	February 3, 2024	January 28, 2023
	\$	\$
Finished goods	12,704	15,000
Goods in transit	1,020	1,208
Packaging	1,934	3,314
	<u>15,658</u>	<u>19,522</u>

During the year ended February 3, 2024, inventories expensed within cost of sales amounted to \$20,244 (January 28, 2023 - \$31,536). As at February 3, 2024, the provision for obsolescence amounted to \$139 (January 28, 2023 - \$537).

## 7. PROPERTY AND EQUIPMENT

	<b>Leasehold improvements</b>	<b>Furniture and equipment</b>	<b>Computer hardware</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>				
Balance, January 29, 2022	8,121	2,286	1,772	12,179
Acquisitions	—	129	—	129
Balance, January 28, 2023	8,121	2,415	1,772	12,308
Acquisitions	921	162	433	1,516
<b>Balance, February 3, 2024</b>	<b>9,042</b>	<b>2,577</b>	<b>2,205</b>	<b>13,824</b>
<b>Accumulated depreciation and impairment</b>				
Balance, January 29, 2022	7,850	1,903	1,651	11,404
Depreciation	138	125	57	320
Impairment	74	—	—	74
Balance, January 28, 2023	8,062	2,028	1,708	11,798
Depreciation	264	37	57	358
Impairment	716	512	440	1,668
<b>Balance, February 3, 2024</b>	<b>9,042</b>	<b>2,577</b>	<b>2,205</b>	<b>13,824</b>
<b>Net Carrying Value</b>				
Balance, January 28, 2023	59	387	64	510
<b>Balance, February 3, 2024</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

As at February 3, 2024, the Company performed an impairment test of its non-financial assets within its CGUs. Where the recoverable amount of a CGU was lower than its carrying amount, the Company assessed the recoverable amount of the individual assets within the CGUs to determine the impairment to be recorded. The recoverable amount of property and equipment including the leasehold improvements were assessed taking a fair value less cost of disposal method by comparing the resale fair value of such assets through dispositions to their carrying amounts from a market participant perspective. As a result, an impairment of \$1,668 was recorded over the leasehold improvements, furniture and equipment and computer hardware affecting the retail stores and e-commerce CGUs.

Depreciation expense is reported in the consolidated statement of loss and comprehensive loss under Selling, general and administration expenses (Note 14).

## 8. INTANGIBLE ASSETS

	<b>Computer software \$</b>	<b>Other \$</b>	<b>Total \$</b>
<b>Cost</b>			
Balance, January 29, 2022	12,518	101	12,619
Balance, January 28, 2023	12,518	101	12,619
Acquisitions	638	—	638
<b>Balance, February 3, 2024</b>	<b>13,156</b>	<b>101</b>	<b>13,257</b>
	<b>Computer software \$</b>	<b>Other \$</b>	<b>Total \$</b>
<b>Accumulated Amortization</b>			
Balance, January 29, 2022	10,385	—	10,385
Amortization	555	—	555
Balance, January 28, 2023	10,940	—	10,940
Amortization	606	—	606
Impairment	1,610	101	1,711
<b>Balance, February 3, 2024</b>	<b>13,156</b>	<b>101</b>	<b>13,257</b>
	<b>Computer software \$</b>	<b>Other \$</b>	<b>Total \$</b>
<b>Net Carrying Value</b>			
Balance, January 28, 2023	1,578	101	1,679
<b>Balance, February 3, 2024</b>	<b>—</b>	<b>—</b>	<b>—</b>

The Company performed an impairment test of its non-financial assets within its CGUs. Where the recoverable amount of a CGU was lower than its carrying amount, the Company assessed the recoverable amount of the individual assets within the CGUs to determine the impairment to be recorded. The recoverable amount of computer software was estimated based on a fair value less cost of disposal method from a market participant perspective taking into account the recoverability of their carrying amounts from possible future use for the Company or the market participant. As a result, an impairment of \$1,711 was recorded over the computer software and other intangible assets affecting the e-commerce CGU.

Amortization expense is reported in the consolidated statement of loss and comprehensive loss under selling, general and administration expenses (Note 14).

## 9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements:

	<b>Right-of-Use Assets</b>	<b>Lease Liability</b>
	<b>\$</b>	<b>\$</b>
Balance, January 28, 2023	9,345	10,225
Additions	1,515	1,515
Disposal	(478)	(516)
Amortization expense	(2,590)	—
Interest expense	—	524
Payments	—	(3,073)
<b>Balance, February 3, 2024</b>	<b>7,792</b>	<b>8,675</b>

**Presented as:**

Current	2,690
Non-Current	5,985

	<b>Right-of-Use Assets</b>	<b>Lease Liability</b>
	<b>\$</b>	<b>\$</b>
Balance, January 29, 2022	12,087	12,553
Additions	61	61
Amortization expense	(2,620)	—
Impairment of right-of-use assets	(183)	—
Interest expense	—	637
Payments	—	(3,026)
<b>Balance, January 28, 2023</b>	<b>9,345</b>	<b>10,225</b>

**Presented as:**

Current	2,543
Non-Current	7,682

In connection with its impairment test over non-financial assets, the Company recorded an impairment loss of \$nil related to the Company's right-of-use assets (January 28, 2023 - \$183) on certain of its retail stores CGUs.

Amortization expense is reported in the consolidated statement of loss and comprehensive loss under Selling, general and administration expenses (Note 14).

The following table presents a maturity analysis of future contractual undiscounted cash flows from lease liabilities:

	<b>2024</b>
	<b>\$</b>
Within one year	3,121
After one year but no more than five years	6,167
More than five years	322

The Company has lease contracts that contain variable lease payments primarily based on a percentage of retail sales. The Company recognized variable lease payments of \$1,574 for the year ended February 3, 2024 (January 28, 2023 - \$1,578). In addition, expenses related to leases of low-value assets were \$16 (January 28, 2023 - \$21). These expenses are recorded in Selling, general and administrative expenses (Note 14). The Company also has signed new leases commencing in the fiscal year ending February 1, 2025 and is presented in Note 12 within its commitments.

## 10. TRADE AND OTHER PAYABLES

	As at	
	February 3, 2024	January 28, 2023
	\$	\$
Trade payable and accrued liabilities	6,987	11,239
Income taxes payable	44	44
Wages, salaries and employee benefits payable	1,631	1,027
	<u>8,662</u>	<u>12,310</u>

Included in prepaid expenses and deposits are advances to suppliers of \$1,490 (January 28, 2023 - \$815).

## 11. DEFERRED REVENUE

	As at	
	February 3, 2024	January 28, 2023
	\$	\$
Gift cards liability, net of breakage	4,156	4,387
Loyalty program	726	976
	<u>4,882</u>	<u>5,363</u>

During the year, the Company recorded gift card breakage income of \$377 (January 28, 2023 - \$340). Gift card breakage is included in sales in the consolidated statement of loss and comprehensive loss.

## 12. COMMITMENTS

*Commitments for leases commencing in fiscal year ending February 1, 2025*

During the year, the Company signed new leases commencing August 2024 to October 2024. Future minimum lease commitments are as follows:

<u>Year</u>	<u>\$</u>
2024	546
2025	2,076
2026	2,090
2027	2,174
2028	2,256
2029 and thereafter	2,952

### *Purchase commitments*

As at February 3, 2024, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company. Purchase obligations amounting to \$8.6 million, net of advances amounting to \$429, which are included in Prepaid expenses and deposits (prior fiscal year - \$6.7 million, net of \$815 of advances) are expected to be discharged within 12 months or in the fiscal year ending February 1, 2025. Commitments beyond the next year amounted to \$2.4 million for the fiscal year ending January 31, 2026.

## **13. SHARE CAPITAL**

### **Authorized**

An unlimited number of common shares.

### **Issued and Outstanding**

	<b>As at</b>	
	<b>February 3, 2024</b>	<b>January 28, 2023</b>
Share Capital	\$ 114,786	\$ 114,163
Common Shares	26,848,737	26,623,068
		<b>Common shares #</b>
<b>Number of shares in issuance</b>		
Balance, January 29, 2022		26,423,717
Issuance of common shares upon vesting of restricted stock units		199,351
Balance, January 28, 2023		26,623,068
Issuance of common shares upon vesting of restricted stock units		225,669
Balance, February 3, 2024		26,848,737

During the years ended February 3, 2024 and January 28, 2023, no stock options were granted or exercised for common shares.

In addition, during the year ended February 3, 2024, 225,669 common shares (January 28, 2023 – 199,351) were issued in relation to the vesting of RSUs, resulting in an increase in share capital of \$623, net of tax (January 28, 2023 - \$558).

### **Stock-Based Compensation**

The 2015 Omnibus Plan provides for awards of stock options, stock appreciation rights (“SARs”), restricted stock, unrestricted stock, stock units (including RSUs), performance awards, deferred share units, elective deferred share units and other awards convertible into or otherwise based on the Company’s common shares. Eligibility for stock options intended to be incentive stock options is limited to the Company’s employees. Dividend equivalents may also be provided in connection with an award under the 2015 Omnibus Plan. The maximum term of stock options and SARs is seven years. The options vest evenly over a period of 36 or 48 months, with some options vesting monthly and some options vesting annually. There are no cash settlement alternatives.

The maximum number of the Company's common shares that are available for issuance under the 2015 Omnibus Plan is 2,940,000 shares. Common shares issued under the 2015 Omnibus Plan may be authorized but unissued shares of the Company not reserved for any other purpose. As at February 3, 2024, 960,010 common shares remain available for issuance under the 2015 Omnibus Plan.

A summary of the status of the Company's stock options and changes during the year is presented below.

	For the year ended			
	February 3, 2024		January 28, 2023	
	Options outstanding #	Weighted average exercise price \$	Options outstanding #	Weighted average exercise price \$
Outstanding, beginning of year	3,490	14.39	3,490	14.39
Forfeitures	(3,490)	(14.39)	—	—
Outstanding, end of period	—	—	3,490	14.39
Exercisable, end of period	—	—	3,490	14.39

The following tables summarize information about the stock options outstanding at January 28, 2023:

	Number outstanding at January 28, 2023 #	Weighted average contractual remaining life (years)	Weighted average exercise price \$	Number of options exercisable at January 28, 2023 #	Weighted average exercise price \$
<b>Range of exercise prices</b>					
\$14.39 - \$17.99	3,490	0.2	14.39	3,490	14.39
<b>Balance, January 28, 2023</b>	<b>3,490</b>	<b>0.2</b>	<b>14.39</b>	<b>3,490</b>	<b>14.39</b>

A summary of the status of the Company's RSUs and changes during the years ended February 3, 2024 and January 28, 2023 is presented below.

	For the year ended			
	February 3, 2024		January 28, 2023	
	RSUs outstanding #	Weighted average fair value per unit (1) \$	RSUs outstanding #	Weighted average fair value per unit (1) \$
Outstanding, beginning of period	1,438,839	2.25	1,282,790	2.60
Granted	50,000	0.43	833,764	1.99
Forfeitures	(92,341)	(1.96)	(270,818)	2.28
Vested	(225,669)	(2.76)	(199,351)	2.80
Vested, withheld for tax	(234,957)	(2.76)	(207,546)	2.80
Outstanding, end of period	935,872	1.93	1,438,839	2.25

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

During the year ended February 3, 2024, the Company recognized a stock-based compensation expense of \$677 (January 28, 2023 - \$1,413).

#### 14. COST OF SALES AND SELLING, GENERAL AND ADMINISTRATION EXPENSES

Included in cost of sales are the following expenses:

	<u>For the year ended</u>	
	<u>February 3, 2024</u>	<u>January 28, 2023</u>
	<u>\$</u>	<u>\$</u>
Cost of goods sold	20,244	31,536
Retail occupancy costs (1)	3,203	3,264
Delivery costs	6,388	9,588
Warehouse salaries, handling and other costs	6,584	10,326
	<u>36,419</u>	<u>54,714</u>

(1) Includes variable rent of \$1.4 million and amortization of right-of-use assets of \$1.8 million (2022 – \$1.5 million and \$1.8 million respectively).

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

	<u>For the year ended</u>	
	<u>February 3, 2024</u>	<u>January 28, 2023</u>
	<u>\$</u>	<u>\$</u>
<b><u>Cash disbursements</u></b>		
Wages, salaries and employee benefits	12,225	14,117
IT ongoing expenses	7,129	6,431
Marketing expenses	6,194	6,535
Director & officer and other insurance	1,135	1,221
Selling Supplies	1,094	1,720
Professional and consulting fees	1,086	1,651
Credit card fees	1,040	1,688
Costs related to internalizing fulfillment services	1,030	—
Software implementation and configuration	—	3,611
Other selling, general and administration	2,094	3,177
Sub-total	<u>33,027</u>	<u>40,151</u>
<b><u>Non-cash disbursements</u></b>		
Impairment of property and equipment, intangible assets and right-of-use assets	3,379	257
Stock-based compensation	677	1,413
Amortization of intangible assets	606	555
Depreciation of property and equipment	358	320
Amortization right-of-use asset	126	168
Sub-total	<u>5,146</u>	<u>2,713</u>
	<u>38,173</u>	<u>42,864</u>

## 15. FINANCE COSTS

	For the year ended	
	February 3, 2024	January 28, 2023
	\$	\$
Interest on lease liabilities	524	637
Other finance cost	125	93
	<u>649</u>	<u>730</u>

## 16. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective tax rate is as follows:

	For the year ended			
	February 3, 2024		January 28, 2023	
	%	\$	%	\$
<b>Income tax provision (recovery) — statutory rate</b>	26.3	(3,635)	26.3	(3,912)
Increase (decrease) in income tax provision (recovery) resulting from:				
Non-deductible items	(1.4)	199	(2.7)	398
Effect of substantively enacted income tax rate changes	(0.1)	11	—	—
Unrecognized deferred income tax assets	(23.1)	3,199	(22.1)	3,285
Other	(1.7)	226	(1.5)	229
<b>Income tax provision (recovery) — effective tax rate</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The tax effects of temporary differences and net operating losses that give rise to deferred income tax assets and lease liabilities are as follows:

	February 3, 2024	January 28, 2023
	\$	\$
<b>Deferred income tax assets</b>		
Operating losses carried forward	18,653	18,387
Tax values of property and equipment in excess of carrying value including impairment	4,833	1,684
Stock options	3,532	3,495
Lease liabilities	2,281	2,690
Other	512	766
Total deferred income tax assets	<u>29,811</u>	<u>27,022</u>
<b>Deferred income tax liabilities</b>		
Right-of-use assets	(2,049)	(2,459)
Total deferred income tax liabilities	<u>(2,049)</u>	<u>(2,459)</u>
<b>Total deferred income tax assets, net</b>	27,762	24,563
<b>Unrecognized deferred income tax asset</b>	<u>(27,762)</u>	<u>(24,563)</u>
<b>Net deferred income tax assets</b>	<u>—</u>	<u>—</u>

As at February 3, 2024, the Company's Canadian operations have accumulated losses amounting to \$50.7 million (January 28, 2023 - \$50.4 million), which begin to expire in 2039. As at February 3, 2024, the Company's U.S. subsidiary has accumulated losses amounting to US\$26.1 million (January 28, 2023 - US\$26.4 million), of which US\$13.7 million expires during the years ending in 2033 to 2037. The remaining accumulated losses amounting to US\$12.4 million have an indefinite carry forward period.

Based upon the projections for future taxable income, management believes it is not probable that the Company will realize the benefits of these operating tax losses carried forward and other deductible temporary differences. Therefore, a full valuation allowance of \$27.8 million (January 28, 2023 - \$24.6 million) million was recorded against the net deferred income tax asset.

The changes in the net deferred income tax asset were as follows for the fiscal year:

	<b>February 3, 2024</b>	<b>January 28, 2023</b>
	<b>\$</b>	<b>\$</b>
Balance net, beginning of year	—	—
Canadian and U.S. operating losses carried forward	<b>266</b>	3,422
Property and equipment, including store impairment	<b>3,149</b>	(829)
Stock options	<b>37</b>	(89)
Right-of-use asset	<b>410</b>	720
Lease liabilities	<b>(409)</b>	(611)
Unrecognized deferred income tax asset	<b>(3,199)</b>	(3,132)
Other	<b>(254)</b>	519
Deferred income tax assets net, end of year	<u>—</u>	<u>—</u>

## 17. LOSS PER SHARE

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

	<b>For the year ended</b>	
	<b>February 3, 2024</b>	<b>January 28, 2023</b>
	<b>\$</b>	<b>\$</b>
Net loss for basic EPS	<b>(13,827)</b>	(14,868)
Weighted average number of shares outstanding:		
Basic	<b>26,726,100</b>	26,530,443
Fully diluted	<b>26,726,100</b>	26,530,443
Net loss per share:		
Basic	<b>(0.52)</b>	(0.56)
Fully diluted	<b>(0.52)</b>	(0.56)

For the years ended February 3, 2024 and January 28, 2023, because of the net losses recorded during these years, the stock options and RSUs disclosed in Note 13 are anti-dilutive.

## 18. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount, being the consideration established and agreed to by the related parties.

During the year ended February 3, 2024, the Company purchased merchandise for resale from a company controlled by one of its executive employees amounting to \$42 (January 28, 2023 - \$144). As of February 3, 2024, an amount of \$nil was outstanding and presented in Trade and other payables (January 28, 2023, \$4).

The Company also provided infrastructure and administrative services of \$6 (January 28, 2023 - \$13) to a company controlled by one of its executive employees. As of February 3, 2024, an amount of \$nil was outstanding and presented in Trade and other receivables (January 28, 2023, \$3).

### Transactions with key management personnel

Key management of the Company includes members of the Board as well as certain executive officers. The compensation expensed by key management in aggregate was as follows:

	For the year ended	
	February 3, 2024	January 28, 2023
	\$	\$
Wages, salaries, bonus and director fees	2,123	2,423
Termination benefits	—	174
Stock-based compensation	551	1,151
Total compensation earned by key management personnel	<u>2,674</u>	<u>3,748</u>

## 19. 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:

	For the year ended	
	February 3, 2024	January 28, 2023
	\$	\$
Tea	54,412	72,642
Tea accessories	5,277	8,988
Food and beverages	954	1,396
	<u>60,643</u>	<u>83,026</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:

	<b>For the year ended</b>		
	<b>February 3, 2024</b>		
	<b>Canada</b>	<b>US</b>	<b>Consolidated</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	51,858	8,785	60,643
Cost of sales	31,717	4,702	36,419
Gross profit	20,141	4,083	24,224
Selling, general and administration expenses (allocated)	11,250	1,678	12,928
Results from operating activities before undernoted	8,891	2,405	11,296
Selling, general and administration expenses (non-allocated)			25,245
Results from operating activities			(13,949)
Finance costs			649
Finance income			(771)
Net loss			<u>(13,827)</u>

	<b>For the year ended</b>		
	<b>January 28, 2023</b>		
	<b>Canada</b>	<b>US</b>	<b>Consolidated</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	67,688	15,338	83,026
Cost of sales	44,725	9,989	54,714
Gross profit	22,963	5,349	28,312
Selling, general and administration expenses (allocated)	11,724	2,277	14,001
Results from operating activities before undernoted	11,239	3,072	14,311
Selling, general and administration expenses (non-allocated)			28,863
Results from operating activities			(14,552)
Finance costs			730
Finance income			(414)
Net loss			<u>(14,868)</u>

## 20. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including risks related to foreign exchange, interest rate, credit, and liquidity.

### Currency risk - foreign exchange risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Given that a significant amount of its purchases are denominated in U.S. dollars and to some extent its sales, the Company is exposed to foreign exchange risk. The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. The Company is exposed to currency risk through its cash, accounts receivable and accounts payable denominated in U.S. dollars.

If all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net loss in the amount of \$126.

The Company's foreign exchange exposure is as follows:

	<b>February 3, 2024</b>	<b>January 28, 2023</b>
	<b>US\$</b>	<b>US\$</b>
Cash	226	681
Accounts and other receivables	151	442
Trade and other payables	2,898	1,979

### **Market risk - interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets with variable interest rates and consist of cash.

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. The Company's liquidity follows a seasonal pattern based on the timing of sales and inventory purchases. The Company is exposed to this risk mainly in respect of its trade and other payables, leases, and commitments.

As at February 3, 2024, we had \$12.6 million of cash held by major Canadian financial institutions.

Working capital was \$19.7 million as at February 3, 2024, compared to \$30.8 million as at January 28, 2023. The decrease in working capital is substantially explained mainly by a decrease in inventories and cash.

Our primary source of liquidity is cash on hand and cashflow generated from operations as we do not have any committed debt financing. Our working capital requirements are driven by the purchase of inventory, payment of payroll, ongoing technology expenditures and other operating 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.

### **Credit risk**

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. The Company's maximum exposure to credit risk at the reporting date is equal to the carrying value of cash and receivables. Cash is held with large financial institutions with credit. Accounts receivable primarily consists of receivables from customers who pay by credit card, receivables from our wholesale channel sales, recoveries of credits from suppliers for returned or damaged products, and receivables from other companies for sales of products and other services. Credit card payments have minimal credit risk, and the limited number of corporate receivables is closely monitored. As a result, expected credit loss on these financial assets is not significant.

As at February 3, 2024, 3 customers represented 58.1% of total trade receivables (January 28, 2023 – 3 customers represented 63.3% of total trade receivables).

## 21. MANAGEMENT OF CAPITAL

The Company's capital is composed of cash and shareholders' equity as follows:

	February 3, 2024	January 28, 2023
	\$	\$
Cash	12,600	22,440
Shareholder's equity [Excluding Accumulated other comprehensive income]	18,236	31,518
<b>Total capital under management</b>	<b>30,836</b>	<b>53,958</b>

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its plans to stabilize its business and its revenue decline in anticipation of potential revenue growth, to establish a capital base to maintain investor, creditor, and market confidence and to provide an adequate return to shareholders.

The Company's primary uses of capital are to finance non-cash working capital and operating losses.

The Company traditionally funded its requirements from its cash on hand and internally-generated cash flows. The Company does not have any long-term financing debt (other than lease liabilities). Please refer to note 2 – Going Concern Uncertainty.

On August 23, 2022, a revolving line of credit on demand with the Bank of Nova Scotia (the "Bank") was established for up to \$15.0 million, less a reserve of \$0.5 million for credit cards based on eligible accounts receivable and inventory balances. The credit facility bears interest at the prime rate plus 1%, renewable annually at the lender's option. In addition, Investissement Québec has provided a loan loss guarantee under its "Loan Loss Program", securing 50% of any loss incurred by the Bank with respect to the recovery of indebtedness under the line of credit.

This credit facility is subject to financial covenants which were not met at February 3, 2024, thereby rendering the facility unavailable.

## 22. GUARANTEES

Some agreements to which the Company is party include indemnification provisions that may require the Company to make payments to a third party for breach of fundamental representation and warranty terms in the agreements, with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material obligations. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. As at February 3, 2024, management does not believe that these indemnification provisions would require any material cash payment by the Company, and insurance coverage, estimated by management to be reasonable and sufficient, exists in order to minimize the previously mentioned risks.

The Company indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Company and maintains liability insurance for its directors and officers.