UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 1, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-37404

DAVIDsTEA Inc.

(Exact name of registrant as specified in its charter)

Canada	**98-1048842**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5430 Ferrier
Mount-Royal, Québec, Canada, H4P 1M2
(Address of principal executive offices) (zip code)

(888) 873-0006
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered	Trading Symbol for Each Class
Common shares, no par value per share	NASDAQ Global Market	DTEA

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 11, 2021, 26,255,769 common shares of the registrant were outstanding.

The brand, service or product names or marks referred to in this Quarterly Report are trademarks or services marks, registered or otherwise, of DAVIDsTEA Inc. and our wholly-owned subsidiary, DAVIDsTEA (USA) Inc.

DAVIDsTEA Inc.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

DAVIDsTEA Inc. (the "Company"), a corporation incorporated under the *Canada Business Corporations Act*, qualifies as a foreign private issuer in the United States for purposes of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a foreign private issuer, the Company has chosen to file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the United States Securities and Exchange Commission ("SEC") instead of filing the reporting forms available to foreign private issuers, although the Company is not required to do so.

In this Quarterly Report, unless otherwise specified, all monetary amounts are in Canadian dollars, all references to "$," "C$," "CAD", "Canadian dollars" and "dollars" mean Canadian dollars and all references to "U.S. dollars", "US$" and "USD" mean U.S. dollars.

On June 11, 2021, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was US$1.00 = CAD$1.2148.

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited and in thousands of Canadian dollars]

		As at	
		May 1, 2021 $	**January 30, 2021 $**
ASSETS			
Current			
Cash		**31,321**	30,197
Accounts and other receivables		**6,570**	6,157
Inventories		**29,258**	23,468
Income tax receivable		**55**	55
Prepaid expenses and deposits		**11,578**	14,470
Total current assets		**78,782**	74,347
Property and equipment	[Note 5]	**1,922**	2,309
Intangible assets		**3,525**	3,929
Right-of-use assets	[Note 5]	**498**	657
Total assets		**84,727**	81,242

LIABILITIES AND EQUITY			
Current			
Trade and other payables		**6,154**	4,152
Deferred revenue		**6,765**	7,080
Liabilities subject to compromise	[Note 6]	**98,402**	100,550
Current portion of lease liabilities		**271**	396
Total current liabilities		**111,592**	112,178
Non-current portion of lease liabilities		**307**	355
Total liabilities		**111,899**	112,533
Commitments and contingencies			
Equity			
Share capital	[Note 7]	**113,237**	113,167
Contributed surplus		**1,787**	1,747
Deficit		**(144,871)**	(148,068)
Accumulated other comprehensive income		**2,675**	1,863
Total deficiency		**(27,172)**	(31,291)
Total liabilities and equity		**84,727**	81,242

See accompanying notes.

Table of Contents

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

[Unaudited and in thousands of Canadian dollars, except share and per share information]

		For the three months ended	
		May 1, 2021 $	**May 2, 2020 $**
Sales	[Note 13]	**23,249**	**32,242**
Cost of sales		**12,481**	**17,569**
Gross profit		**10,768**	**14,673**
Selling, general and administration expenses	[Note 9]	**9,194**	**21,634**
Restructuring activities, net	[Note 10]	**(1,602)**	**37,400**
Results from operating activities		**3,176**	**(44,361)**
Finance costs		**10**	**1,667**
Finance income		**(55)**	**(240)**
Net income (loss)		**3,221**	**(45,788)**
Other comprehensive income (loss):			
Cumulative translation adjustment		**812**	**(1,468)**
Other comprehensive income (loss), net of tax		**812**	**(1,468)**
Total comprehensive income (loss)		**4,033**	**(47,256)**
Net earnings (loss) per share:			
Basic	[Note 11]	**0.12**	**(1.76)**
Fully diluted	[Note 11]	**0.12**	**(1.76)**
Weighted average number of shares outstanding			
Basic	[Note 11]	**26,296,690**	**26,088,127**
Fully diluted	[Note 11]	**27,400,840**	**26,088,127**

See accompanying notes.

Table of Contents

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited and in thousands of Canadian dollars]

For the three months ended

	May 1, 2021 $	May 2, 2020 $
OPERATING ACTIVITIES		
Net income (loss)	3,221	(45,788)
Items not affecting cash:		
Depreciation of property and equipment	388	1,243
Amortization of intangible assets	403	512
Amortization of right-of-use assets	159	2,239
Liabilities subject to compromise	(2,148)	—
Interest on lease liabilities	10	1,629
Impairment of property and equipment and right-of-use assets	—	39,960
Stock-based compensation expense	182	313
Sub-total	2,215	108
Net change in other non-cash working capital balances related to operations	(908)	(4,164)
Cash flows from (used in) operating activities	1,307	(4,056)
FINANCING ACTIVITIES		
Payment of lease liabilities	(183)	(4,376)
Cash flows used in financing activities	(183)	(4,376)
INVESTING ACTIVITIES		
Additions to property and equipment	—	(272)
Additions to intangible assets	—	(317)
Repayment of loan from a Company controlled by an executive employee	—	2,026
Cash flows from investing activities	—	1,437
Increase (decrease) in cash during the period	1,124	(6,995)
Cash, beginning of the period	30,197	46,338
Cash, end of the period	31,321	39,343
Supplemental Information		
Cash paid for:		
Interest	—	50
Income taxes	—	—
Cash received for:		
Interest	55	778
Income taxes (classified as operating activity)	—	2,948

See accompanying notes.

Table of Contents

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)

[Unaudited and in thousands of Canadian dollars]

	Share Capital $	Contributed Surplus $	Deficit $	Accumulated Other Comprehensive Income (loss) $	Total Equity (Deficiency) $
Balance, January 30, 2021	**113,167**	**1,747**	**(148,068)**	**1,863**	**(31,291)**
Net income for the three months ended May 1, 2021	**—**	**—**	**3,221**	**—**	**3,221**
Other comprehensive income	**—**	**—**	**—**	**812**	**812**
Total comprehensive income	**—**	**—**	**3,221**	**812**	**4,033**
Common shares issued on vesting of restricted stock units	**70**	**(142)**	**(24)**	**—**	**(96)**
Stock-based compensation expense	**—**	**182**	**—**	**—**	**182**
Balance, May 1, 2021	**113,237**	**1,787**	**(144,871)**	**2,675**	**(27,172)**
Balance, February 1, 2020	112,843	1,577	(92,278)	1,207	23,349
Net loss for the three months ended May 2, 2020	—	—	(45,788)	—	(45,788)
Other comprehensive loss	—	—	—	(1,468)	(1,468)
Total comprehensive loss	—	—	(45,788)	(1,468)	(47,256)
Common shares issued on vesting of restricted stock units	74	(156)	69	—	(13)
Stock-based compensation expense	—	313	—	—	313
Balance, May 2, 2020	112,917	1,734	(137,997)	(261)	(23,607)

See accompanying notes.

DAVIDsTEA Inc.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended May 1, 2021 and May 2, 2020 [Unaudited]

[Amounts in thousands of Canadian dollars except share and per share amounts]

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-month period ended May 1, 2021 were authorized for issue in accordance with a resolution of the Board of Directors on June 15, 2021. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the Nasdaq Global Market under the symbol "DTEA". The registered office is located at 5430 Ferrier St., Town of Mount-Royal, Quebec, 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 and the Amazon Marketplace, its wholesale customers which include over 2,500 grocery stores and pharmacies, and 18 company-owned stores across Canada. We offer primarily proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea. 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.

In March 2020, the outbreak of a novel strain of coronavirus ("COVID-19") was declared a global pandemic by the World Health Organization and on March 17, 2020, in response to the COVID-19 pandemic, the Company announced the temporary closure of all of its retail stores in Canada and the United States. On August 21, 2020, the Company re-opened 18 stores across Canada.

The Company qualifies for the Canada Emergency Wage Subsidy ("CEWS") under the COVID-19 Economic Response Plan of the Government of Canada. During the period ended May 1, 2021, the Company recognized payroll subsidies of $1.1 million (May 2, 2020 - $0.8 million) under this wage subsidy program which was recognized in Selling, general and administration expenses.

CCAA Proceedings

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

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

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

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

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

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

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

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

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

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

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

The Company will seek a sanction order (the "Sanction Order") for the Plan of Arrangement from the Québec Superior Court at a hearing scheduled for June 16, 2021. If the Sanction Order is granted, the Company will seek recognition of the Sanction Order from the United States Bankruptcy Court for the District of Delaware under Chapter 15 of the United States Bankruptcy Code at a hearing scheduled for June 17, 2021.

The Plan of Arrangement approved by the Company's creditors on June 11, 2021 provides that DAVIDsTEA Inc. will distribute an aggregate amount of approximately $18.0 million to its creditors and those of DAVIDsTEA (USA) Inc. in full and final settlement of all claims affected by the Plan of Arrangement. Such distribution will take place after, and is conditional upon, the two Court approvals referred to above, the whole as provided in the Plan of Arrangement. The Company can provide no assurance that it will obtain a sanction order for the Plan of Arrangement from the Québec Superior Court or that the sanction order, if any, will be recognized by the United States Bankruptcy Court for the District of Delaware.

2. BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

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 of 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 January 30, 2021, 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 consolidated financial statements for the year ended January 30, 2021.

Going Concern Uncertainty

In December 2019, a novel strain of coronavirus, responsible for COVID-19, was first reported and was subsequently declared a pandemic by the World Health Organization in March 2020. The measures adopted by the federal, provincial and state governments in order to mitigate the spread of the outbreak required the Company to temporarily close all of its retail locations across North America effective March 17, 2020.

On July 8, 2020, the Company announced that it was implementing the Restructuring Plan under applicable laws in both Canada and the United States in order to accelerate its transition to predominantly an online retailer and wholesaler of high-quality tea and accessories. As part of the Restructuring Plan, in July 2020, the Company sent notices to terminate leases for 164 of its stores in Canada and all 42 of its stores in the United States. On August 21, 2020, the Company re-opened 18 of its stores throughout Canada.

Although the Company continues to offer its products directly to consumers through its online store and in supermarkets and drugstores across Canada, it is unlikely that customers will purchase its products at previous volumes through these alternative channels. Furthermore, the duration and impact of the COVID-19 pandemic is unknown and may influence consumer shopping behavior and consumer demand including online shopping.

The Plan of Arrangement requires approximately $18.0 million to be paid to the Company's creditors in order to legally emerge from the formal restructuring process. This is expected to place increased risk on the Company's available liquidity, especially considering the Company does not currently have access to any debt or financing arrangements.

For the quarter ended May 1, 2021, the Company reported a net income of $3.2 million. The Company's current liabilities total $111.6 million as at May 1, 2021. As at May 1, 2021, the Company held cash and accounts and other receivables of $37.9 million. The Company does not currently have any third-party financing available with which to meet any future financial obligations.

The Company's ability to continue as a going concern is dependent on its ability to stabilize its business from unfavorable trend lines, and by focusing on how to grow its product portfolio including sales and customer service execution. The Company expects to transition to a digital-first organization with a leaner, more sustainable physical presence that complements a growing world-class online and grocery business, supported by a right-sized support organization.

Management believes that there is material uncertainty surrounding the Company's ability to execute the strategy necessary to return to sustained profitability in the current environment, including the unpredictability surrounding the recovery from the COVID-19 pandemic, and changes in consumer behavior.

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

These interim condensed 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 interim condensed consolidated financial statements as at and for the three-months ended May 1, 2021 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

3. CHANGES IN ACCOUNTING PRINCIPLES

Change in the pattern of consumption of intangible assets

Intangible assets are initially recorded at cost. Intangible assets with finite lives 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.

In the first quarter of 2021 the Company reviewed the pattern of consumption of its intangible assets. The Company previously used the declining method at the rate of 30% per annum. The Company changed the method of depreciation for intangible assets to a straight-line basis over the assets useful economic life to better reflect the underlying pattern of consumption.

Recently Issued Accounting Pronouncements

On May 28, 2020, the IASB issued an amendment to IFRS 16, “Leases” to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. In April 2021, the IASB extended the relief to cover rent concessions that reduce lease payments due on or before June 30, 2022.

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

The amendment was effective as of June 1, 2020 but could be applied immediately in any financial statements; interim or annual, not yet authorized for issue. The Company applied the practical expedient to all rent concessions meeting the criteria as set out in the amendment, as of February 2, 2020. With respect to rent concessions not meeting the definition of a lease modification, the Company elected to account for such concessions by continuing to account for the lease liability and right-of-use asset using the rights and obligations of the existing lease and recognizing a separate lease payable in the period in which the allocated lease cash payment is due. As a result of the Initial Order obtained from the Québec Superior Court on July 8, 2020, any rent concessions provided by landlords are accordingly nullified.

Table of Contents

4. SIGNIFICANT ACCOUNTING JUDGMENTS, 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 5 of the consolidated financial statements for the year ended January 30, 2021.

5. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

As a result of the impairment assessment and the Company’s decision to implement its Restructuring Plan and to accelerate its transition to predominately an online retailer, the Company recorded an impairment loss of its property and equipment and right-of-use assets of $13.0 million and $27.0 million respectively, during the three-month period ended May 2, 2020.

Included in the amount above of $40.0 million, $37.4 million relates to the 206 stores permanently closed as a result of the Restructuring Plan, and is recorded in Restructuring plan activities, net (Note 10) in the interim consolidated statement of income (loss) and comprehensive income (loss).

The remaining $2.6 million of impairment loss was determined by comparing the carrying amount of the cash-generating units’ net assets with their respective recoverable amounts based on value in use, and is recorded in Selling, general and administration expenses (Note 9) in the interim consolidated statement of income (loss) and comprehensive income (loss). For these stores, a value in use of $791 was determined based on management’s best estimate of expected future cash flows from use over the remaining lease terms, considering historical experience and economic conditions, including the expected reopening date and the timeframe to foot traffic recovery in those location, and was then discounted using a pre-tax discount rate of 13.0%.

Depreciation of property and equipment for the three-month period ended May 1, 2021 was $388 (May 2, 2020 - $1,243), and is recorded in Selling, general and administration expenses (Note 9) in the interim consolidated statement of income (loss) and comprehensive income (loss).

Amortization of right-of-use assets for the three-month period ended May 1, 2021 was $159 (May 2, 2020 - $2,239), and is recorded in Selling, general and administration expenses (Note 9) in the interim consolidated statement of income (loss) and comprehensive income (loss).

6. LIABILITIES SUBJECT TO COMPROMISE

As a result of the Initial Order obtained on July 8, 2020 and subsequent amendments (Note 1), the payment of liabilities owing as of July 8, 2020 is stayed, and the outstanding liabilities, as well as any additional outstanding claims by creditors are subject to compromise pursuant to the Company’s Plan of Arrangement.

On September 17, 2020, the Court issued a Claims Process Order establishing the claims procedures for the Company’s creditors under the CCAA. The Claims Process Order, among other things set November 6, 2020 as the time by which creditors had to submit their claims to PwC.

Obligations for goods and services provided to the Company after the filing date of July 8, 2020 are discharged based on negotiated terms and are excluded from liabilities subject to compromise.

Table of Contents

As of May 1, 2021, liabilities subject to compromise are broken down as follows:

	Disclaimed and modified leases	Trade and other payables	Severance Costs	Liabilities subject to compromise
	$	$	$	$
Balance as at January 30, 2021	**75,310**	**20,699**	**4,541**	**100,550**
Reversals	(1,771)	(377)	—	(2,148)
Balance as at May 1, 2021	**73,539**	**20,322**	**4,541**	**98,402**

The Plan of Arrangement approved by the Company's creditors on June 11, 2021 provides that the Company will distribute an aggregate amount of approximately $18.0 million to its creditors in full and final settlement of all claims affected by the Plan of Arrangement. Such distribution will take place after, and is conditional upon, the Court approvals, the whole as provided in the Plan of Arrangement. The Company can provide no assurance that it will obtain a sanction order for the Plan of Arrangement from the Québec Superior Court or that the sanction order, if any, will be recognized by the United States Bankruptcy Court for the District of Delaware.

7. SHARE CAPITAL

Authorized

An unlimited number of common shares.

Issued and outstanding

	May 1, 2021	January 30, 2021
	$	$
Share Capital - 26,255,769 Common shares (January 30, 2021 - 26,234,582)	**113,237**	113,167

During the three-month period ended May 1, 2021, 21,187 common shares (May 2, 2020 – 13,315 common shares) were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of $70, net of tax (May 2, 2020 — $74) and a reduction in contributed surplus of $142 (May 2, 2020 — $156).

Stock-based compensation

As at May 1, 2021, 1,246,519 (May 2, 2020, 1,533,986) common shares remain available for issuance under the 2015 Omnibus Plan.

No stock options were granted during the three-month periods ended May 1, 2021 and May 2, 2020.

A summary of the status of the Company's stock option plan and changes during the three-month periods are presented below.

	For the three months ended			
	May 1, 2021		May 2, 2020	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
	#	$	#	$
Outstanding and exercisable, beginning of year and end of period	**17,490**	**6.32**	**76,350**	**8.96**

Table of Contents

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

	For the three months ended			
	May 1, 2021		May 2, 2020	
	RSUs outstanding	Weighted average fair value per unit (1)	RSUs outstanding	Weighted average fair value per unit (1)
	#	$	#	$

Outstanding, beginning of year	**1,306,101**	**1.70**	**749,522**	**2.17**
Granted	**—**	**—**	**332,551**	**1.48**
Forfeitures	**(24,131)**	**1.45**	**(28,117)**	**1.48**
Vested	**(21,187)**	**3.32**	**(13,315)**	**5.59**
Vested, withheld for tax	**(22,065)**	**3.32**	**(14,458)**	**5.63**
Outstanding, end of period	**1,238,718**	**1.65**	**1,026,183**	**4.43**

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

During the three-month period ended May 1, 2021, the Company recognized a stock-based compensation expense of $182 (May 2, 2020 — $313).

8. INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year.

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

	For the three months ended			
	May 1, 2021		May 2, 2020	
	%	$	%	$
Income tax provision (recovery) — statutory rate	26.4	850	26.8	(12,122)
Increase (decrease) in income tax provision (recovery) resulting from:				
Non-deductible items	(1.6)	52	(0.1)	23
Unrecognized (recognized) deferred income tax assets	(24.8)	(902)	(26.7)	12,099
Income tax provision (recovery) — effective tax rate	—	—	—	—

Table of Contents

9. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended	
	May 1, 2021 $	May 2, 2020 $
Wages, salaries and employee benefits	**3,566**	9,394
Depreciation of property and equipment	**388**	1,243
Amortization of intangible assets	**403**	512
Amortization right-of-use asset	**159**	2,239
Impairment of property and equipment and right-of-use assets	**—**	2,560
IT expenses	**2,212**	696
Marketing expenses	**945**	1,041
Credit card fees	**536**	616
Professional fees	**237**	614
Stores supplies	**357**	766
Stock-based compensation	**182**	313
Government emergency wage subsidy	**(1,064)**	(843)
Other selling, general and administration	**1,273**	2,483
	9,194	21,634

10. RESTRUCTURING PLAN ACTIVITIES, NET

Included in Restructuring plan activities, net are the following expenses:

	For the three months ended	
	May 1, 2021 $	May 2, 2020 $
Disclaimed leases	(1,771)	-
Trade and other payables	(460)	-
Impairment of property and equipment and right-of-use assets	-	37,400
Professional fees	546	-
Interest and penalties related to unpaid occupancy charges	83	-
Restructuring plan activities, net	(1,602)	37,400

Certain comparative figures have been reclassified to conform to the current period presentation.

11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share ("EPS") amounts are calculated by dividing the net income (loss) for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, unless these would be anti-dilutive.

Table of Contents

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

	For the three months ended	
	May 1, 2021 $	**May 2, 2020 $**
Net earnings (loss) for basic EPS	**3,221**	**(45,788)**
Weighted average number of shares outstanding:		
Basic	**26,296,690**	**26,088,127**
Fully diluted	**27,400,840**	**26,088,127**
Net earnings (loss) per share:		
Basic	**0.12**	**(1.76)**
Fully diluted	**0.12**	**(1.76)**

12. RELATED PARTY DISCLOSURES

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

During the three-month period ended May 1, 2021, the Company purchased merchandise for resale amounting to $46 (May 2, 2020 - $23) and provided infrastructure and administrative services of $5 (May 2, 2020 - $67) to a company controlled by one of its executive employees. As of May 1, 2021, an amount of $4 was outstanding and presented in Trade and other payables.

The Company also spent nil (May 2, 2020 — $44) for consulting services from a related party of the principal shareholder.

Loan to a Company controlled by one of the Company's executive employees

During the second quarter of 2019, the Company entered into a secured loan agreement with Oink Oink Candy Inc., doing business as "Squish", as borrower, and Rainy Day Investments Ltd. ("RDI"), as guarantor pursuant to which the Company agreed to lend to Squish an amount of up to $4.0 million, amended on September 13, 2019 to reflect a maximum amount available under the facility of $2.0 million. RDI guaranteed all of Squish's obligations to the Company and, as security in full for the guarantee, gave a movable hypothec (or lien) in favour of the Company on its shares of the Company. Squish is a company controlled by Sarah Segal, the Chief Executive Officer and Chief Brand Officer of the Company. RDI, the principal shareholder of the Company, is controlled by Herschel Segal, Chairman of the Board and Strategic Advisor and a director of the Company. The Company and Squish previously entered into a Collaboration and Shared Services Agreement pursuant to which they collaborate on and share various services and infrastructure.

During the first quarter of 2020, the loan of $2.0 million and accrued interest of $45, including $19 which was earned in the first quarter, was fully repaid.

13. 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. During the year ended January 30, 2021, the Company has reviewed its operations and determined that each its operating segments are geographic components. The Company has concluded that it has two operating segments, Canada and the U.S., that derive their revenues from the online, retail and wholesale sale of tea, tea accessories and food and beverages. 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 and assesses performance of these segments, and for which discrete financial information is available. In the prior year the operating segments were the retail premises, and the reportable segments were Canada and US. As a result, there is no impact on prior period information as reportable segments were previously Canada and US.

Table of Contents

The Company derives revenue from the following products:

	For the three months ended	
	May 1, 2021 $	**May 2, 2020 $**
Tea	**20,469**	**26,095**
Tea accessories	**2,780**	**4,620**
Food and beverages	**-**	**1,527**
	23,249	**32,242**

Property and equipment, right-of-use assets and intangible assets by country are as follows:

	May 1, 2021	**May 2, 2020**

	$	$
Canada	**5,945**	16,807
U.S.	**-**	138
	5,945	**16,945**

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

	For the three months ended May 1, 2021		
	Canada $	**US $**	**Consolidated $**
Sales	**18,133**	**5,116**	**23,249**
Cost of sales	**9,855**	**2,626**	**12,481**
Gross profit	**8,278**	**2,490**	**10,768**
Selling, general and administration expenses (allocated)	**2,263**	**500**	**2,763**
Results from operating activities before corporate expenses	**6,015**	**1,990**	**8,005**
Selling, general and administration expenses (non-allocated)			**6,431**
Restructuring plan activities, net			**(1,602)**
Results from operating activities			**3,176**
Finance costs			**10**
Finance income			**(55)**
Net income before income taxes			**3,221**

	For the three months ended May 2, 2020		
	Canada $	**US $**	**Consolidated $**
Sales	**24,260**	**7,982**	**32,242**
Cost of sales	**13,411**	**4,158**	**17,569**
Gross profit	**10,849**	**3,824**	**14,673**
Selling, general and administration expenses (allocated)	**9,598**	**2,525**	**12,123**
Impairment of property and equipment and right-of-use assets	**2,560**	**—**	**2,560**
Results from operating activities before corporate expenses	**(1,309)**	**1,299**	**(10)**
Selling, general and administration expenses (non-allocated)			**6,951**
Restructuring plan activities, net			**37,400**
Results from operating activities			**(44,361)**
Finance costs			**1,667**
Finance income			**(240)**
Net loss before income taxes			**(45,788)**

Table of Contents

14. FINANCIAL RISK MANAGEMENT

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

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 some of its purchases are denominated in U.S. dollars, 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.

Assuming that 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 income (loss) in the amount of $249 (May 2, 2020 - $41).

The Company's foreign exchange exposure is as follows:

	May 1, 2021 US$	**January 30, 2021 US$**
Cash	**725**	630
Accounts and other receivables	**472**	465
Prepaid expenses and deposits	**5,364**	5,394
Trade and other payables	**1,585**	750

The Company's U.S. subsidiary's transactions are denominated in U.S. dollars.

Market Risk — Interest Rate Risk

Interest rate risk is the risk that the fair value of 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 and liabilities with variable interest rates and consist primarily of cash on hand.

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 inventory purchases and capital expenditures. The Company is exposed to this risk mainly in respect of its trade and other payables, lease and purchase obligations.

As at May 1, 2021, the Company had $31.3 million in cash.

The Company expects to finance its working capital needs and investments in infrastructure through cash flows from operations and cash on hand. At May 1, 2021, trade and other payables amounted to $6.2 million (January 30, 2021 - $4.2 million) and purchase obligations amounted to $13.0 million, net of $7.2 million of advances (January 30, 2021 - $14.1 million, net of $6.8 million of advances). On July 8, 2020, the Company announced it was implementing a Restructuring Plan and as a result, trade and other payables due as at July 8, 2020 are subject to the Company's Plan of Arrangement. All trade and other payables from July 9, 2020 onwards are expected to be paid according to negotiated vendor terms or are cash-on-delivery.

In light of implementing the Restructuring Plan, the Company expects to use cash on hand to pay for the settlement of obligations, which as a result of creditors accepting the Plan of Arrangement on June 11, 2021, is expected to approximate $18.0 million and become due and payable to our Monitor on June 30, 2021, for ultimate distribution to creditors.

Refer to note 2 for details with respect to the going concern uncertainty.

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 receivables. Accounts receivable primarily consist of receivables from retail 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, gift cards 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.

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

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

Forward-Looking Statements

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

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

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

- ☐ *The effects of our Restructuring Plan pursuant to the CCAA in Canada and recognition of the CCAA proceedings in the United States under Chapter 15 of the United States Bankruptcy Code;*
- ☐ *We may not have sufficient cash to maintain our operations following the Restructuring Plan.*
- ☐ *Our ability to successfully pivot our business to a digital-first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees that are instrumental to growing our online and wholesale channel businesses;*
- ☐ *The duration and impact of the global COVID-19 pandemic, which has disrupted the Company's business and has adversely affected the Company's financial condition and operating results, and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners;*

- ☐ *Our ability to avoid the delisting of the Company's common stock by Nasdaq due to the Restructuring Plan or our inability to maintain compliance with Nasdaq listing requirements;*

- ☐ *Our ability to manage significant changes to our leadership team;*

- ☐ *Our ability to maintain and enhance our brand image;*

- ☐ *Significant competition within our industry;*

- ☐ *Our ability to attract and retain employees that embody our entrepreneurial culture;*

- ☐ *Changes in consumer preferences and economic conditions affecting disposable income;*

- ☐ *Our ability to source, develop and market new varieties of teas, tea accessories, and beverages;*

- ☐ *Our reliance upon the continued retention of key personnel;*

- ☐ *The impact from real or perceived quality or safety issues with our teas, tea accessories, and beverages;*

- ☐ *Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, in particular in light of supply chain disruption due to the COVID-19 pandemic;*

- ☐ *The impact of weather conditions, natural disasters and man-made disasters on the supply and price of tea;*

- ☐ *Actual or attempted breaches of data security;*

- ☐ *The costs of protecting and enforcing our intellectual property rights and defending against intellectual property claims brought by others;*

- ☐ *Fluctuations in exchange rates; and*

- ☐ *The seasonality of our business.*

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

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

Accounting Periods

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

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

Overview

The Company offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 2,500 grocery stores and pharmacies, and 18 company-owned stores across Canada. We offer primarily proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea.

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

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

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

On July 8, 2020, we obtained the Initial Order pursuant to the CCAA from the Québec Superior Court in order to implement the Restructuring Plan. Among other things, the Initial Order provided for the appointment of PricewaterhouseCoopers (“PwC”) as Monitor in the CCAA proceedings.

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

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

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

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

On August 21, 2020, we re-opened 18 stores across Canada.

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

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

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

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

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

Table of Contents

The Company will seek a sanction order for the Plan of Arrangement from the Québec Superior Court at a hearing scheduled for June 16, 2021. If the sanction order is granted, DAVIDsTEA and DAVIDsTEA (USA) Inc. will seek recognition of the sanction order from the United States Bankruptcy Court for the District of Delaware under Chapter 15 of the United States Bankruptcy Code at a hearing scheduled for June 17, 2021.

The Plan of Arrangement approved by the Company’s creditors on June 11, 2021 provides that DAVIDsTEA Inc. will distribute an aggregate amount of approximately $18.0 million to its creditors and those of DAVIDsTEA (USA) Inc. in full and final settlement of all claims affected by the Plan of Arrangement. Such distribution will take place after, and is conditional upon, the two Court approvals referred to above, the whole as provided in the Plan of Arrangement. The Company can provide no assurance that it will obtain a sanction order for the Plan of Arrangement from the Québec Superior Court or that the sanction order, if any, will be recognized by the United States Bankruptcy Court for the District of Delaware.

Management believes that there is material uncertainty surrounding our ability to execute the strategy necessary to return to profitability in the current environment, including the unpredictability surrounding the recovery from the COVID-19 pandemic, and changes in consumer behavior. As a result, these events and conditions indicate that a material uncertainty exists that raises substantial doubt about the Company’s ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business.

Factors Affecting Our Performance

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

How We Assess Our Performance

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Selected Operating and Financial Highlights

Results of Operations

Sales during the first quarter of Fiscal 2021 decreased by $9.0 million or 27.9% to $23.2 million primarily attributable to closure of our retail stores beginning March 17, 2020. Notwithstanding the reduction in revenue, the Company recorded Net income of $3.2 million for the period compared to a Net loss of $45.8 million in the prior year quarter. Adjusted EBITDA in the first quarter of Fiscal 2020 was $2.5 million compared to negative $0.9 million in the prior year quarter.

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

	For the three months ended	
	May 1, 2021	**May 2, 2020**
Consolidated statement of income (loss) data:		
Sales	$ 23,249	$ 32,242
Cost of sales	12,481	17,569
Gross profit	10,768	14,673
Selling, general and administration expenses	9,194	21,634
Restructuring plan activities, net	(1,602)	37,400
Results from operating activities	3,176	(44,361)
Finance costs	10	1,667
Finance income	(55)	(240)
Net income (loss)	$ 3,221	$ (45,788)
Percentage of sales:		
Sales	100.0%	100.0%
Cost of sales	53.7%	54.5%
Gross profit	46.3%	45.5%
Selling, general and administration expenses	39.5%	67.1%
Results from operating activities	13.7%	(137.6)%
Finance costs	0.0%	5.2%
Finance income	(0.2)%	(0.7)%
Net income (loss)	13.9%	(142.0)%
Other financial and operations data:		
Adjusted EBITDA [1]	$ 2,505	$ (937)
Adjusted EBITDA as a percentage of sales	10.8%	(2.9)%
Adjusted SG&A [1]	$ 9,395	$ 19,917
Adjusted results from operating activities [1]	$ 1,373	$ (5,244)
Adjusted net income (loss) [1]	$ 1,418	$ (6,671)

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

Non-IFRS Financial Measures

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

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

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

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

- ☐ Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net income (loss) and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

- ☐ Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net income (loss) and Adjusted EBITDA do not reflect the cash requirements necessary to fund capital expenditures; and

- ☐ Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

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

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

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

	For the three months ended	
	May 1, 2021	**May 2, 2020**
Selling, general and administration expenses	**$ 9,194**	**$ 21,634**
Impairment of property and equipment and right-of-use assets (a)	**—**	**(2,560)**
Software implementation costs (b)	**(863)**	**—**
Government emergency wage subsidy (c)	**1,064**	**843**
Adjusted selling, general and administration expenses	**$ 9,395**	**$ 19,917**

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

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

	For the three months ended	
	May 1, 2021	**May 2, 2020**
Results from operating activities	**$ 3,176**	**$ (44,361)**
Impairment of property and equipment and right-of-use assets (a)	**—**	**2,560**
Software implementation costs (b)	**863**	**—**
Restructuring plan activities, net (c)	**(1,602)**	**37,400**
Government emergency wage subsidy (d)	**(1,064)**	**(843)**
Adjusted results from operating activities	**$ 1,373**	**$ (5,244)**

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

Table of Contents

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

	For the three months ended	
	May 1, 2021	**May 2, 2020**
Net income (loss)	**$ 3,221**	$ (45,788)
Impairment of property and equipment and right-of-use assets (a)	**—**	2,560
Software implementation costs (b)	**863**	—
Restructuring plan activities, net (c)	**(1,602)**	37,400
Government emergency wage subsidy (d)	**(1,064)**	(843)
Adjusted net income (loss)	**$ 1,418**	$ (6,671)

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

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

	For the three months ended	
	May 1, 2021	May 2, 2020
Weighted average number of shares outstanding, fully diluted	26,296,690	26,088,127
Adjusted weighted average number of shares outstanding, fully diluted	27,400,840	26,088,127
Net income (loss)	$ 3,221	$ (45,788)
Adjusted net income (loss)	$ 1,418	$ (6,671)
Net earnings (loss) per share, fully diluted	$ 0.12	$ (1.76)
Adjusted net earnings (loss) per share, fully diluted	$ 0.05	$ (0.26)

Reconciliation of Net income (loss) to Adjusted EBITDA

	For the three months ended	
	May 1, 2021	May 2, 2020
Net income (loss)	**$ 3,221**	$ (45,788)
Finance costs	**10**	1,667
Finance income	**(55)**	(240)
Depreciation and amortization	**950**	3,994
EBITDA	**$ 4,126**	$ (40,367)
Additional adjustments :		
Stock-based compensation expense (a)	**182**	313
Impairment of property and equipment and right-of-use assets (b)	**—**	2,560
Software implementation costs (c)	**863**	—
Restructuring plan activities, net (d)	**(1,602)**	37,400
Government emergency wage subsidy (e)	**(1,064)**	(843)
Adjusted EBITDA	**$ 2,505**	$ (937)

(a) Represents non-cash stock-based compensation expense.
(b) Represents costs related to impairment of property and equipment and right-of-use assets and intangibles assets for stores.
(c) Represents costs related to implementation and configuration of software solutions.
(d) Represents the costs related to the Restructuring plan activities, net.
(e) Represents the wages subsidy received from the Canadian government under the COVID-19 Economic Response Plan.

Table of Contents

Operating Results for the Three-Months Ended May 1, 2021 Compared to the Operating Results for the Three Months Ended May 2, 2020

Sales. Sales for the three-months ended May 1, 2021 decreased 27.9%, or $9.0 million, to $23.2 million from $32.2 million in the prior year quarter. On March 17, 2020, in response to the COVID-19 pandemic, the Company temporarily closed all its retail stores in Canada and the United States, and subsequently in second quarter of fiscal 2020 as part of its formal Restructuring Plan, exited all of its brick-and-mortar stores except for 18 Canadian stores which were reopened on August 21, 2020. Accordingly, brick and mortar sales for the quarter declined when compared to the prior year quarter by $11.9 million or 78.3% to $3.3 million. Sales from e-commerce and wholesale channels increased by $2.9 million or 17.2% to $19.9 million, from $17.0 million in the prior year quarter. E-commerce and wholesale sales represented 85.9% of sales compared to 52.9% of sales in the prior year quarter.

Gross Profit. Gross profit of $10.8 million for the three-months ended May 1, 2021 decreased by $3.9 million or 26.6% from the prior year quarter due primarily to a decline in sales during the period. Gross profit as a percentage of sales increased slightly to 46.3% for the three-month period ended May 1, 2021 from 45.5% in the prior year quarter.

Selling, General and Administration Expenses. Selling, general and administration expenses (“SG&A”) decreased by $12.4 million or 57.5%, to $9.2 million in the three-months ended May 1, 2021 from the prior year quarter. Excluding the impact of the impairment of property and equipment and right-of-use assets for the three-month period ended May 2, 2020, the impact of software implementation and configuration costs, and the impact of the wage subsidy received under the Canadian government COVID-19 Economic Response Plan, Adjusted SG&A decreased by $10.5 million or 52.8% to $9.4 million during the three-month period ended May 1, 2021. In connection with our Restructuring Plan, we terminated the leases for all of our stores in North America except for 18 Canadian stores which reopened on August 21, 2020. As a result, wages, salaries and employee benefits were reduced by $5.1 million, other store related expenses decreased by $1.4 million and we realized a reduction of $2.9 million in amortization expenses due to a lower right-of-use asset value at the beginning of the period. Adjusted SG&A as a percentage of sales in the quarter decreased to 40.4% from 61.8% in the prior year quarter.

Results from Operating Activities. Earnings from operating activities was $3.2 million compared to a loss of $44.4 million in the prior year quarter. Excluding the impact of the impairment of property and equipment and right-of-use assets for the three-month period ended May 2, 2020, the impact of the Restructuring Plan announced on July 8, 2020, and the wage subsidy received from the Canadian government under the COVID-19 Economic Response Plan, , and the implementation and configuration of software solutions, Adjusted operating income amounted to $1.4 million in the three-month period ended May 1, 2021 compared to a loss of $5.2 million in the prior year quarter. The improvement in operating results is partially explained by the reduced SG&A required to support approximately 86% of sales generated from e-commerce and wholesale and a slightly better gross profit margin.

Finance Costs. Finance costs amounted to almost nil in the three-months ended May 1, 2021, a decrease of $1.6 million from the prior year quarter. The interest expense relates to the accounting for lease liabilities with variable lease arrangements and has decreased from the prior year quarter.

Finance Income. Finance income of $55.0 thousand is derived mainly from interest on cash on hand and has decreased slightly from prior year quarter.

Net income (loss). Net income was $3.2 million in the quarter ended May 1, 2021 compared to a Net loss of $45.8 million in the prior year quarter. Adjusted net income (loss), which excludes the Restructuring plan activities, the subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, the impairment of property and equipment and right-of-use assets, and the costs related to the implementation and configuration of software solutions amounted to $1.4 million compared to a net loss of $6.7 million in the prior year quarter. This $8.1 million improvement is driven by the same reasons mentioned above in “Results from operating activities”.

Fully diluted earnings (loss) per common share. Fully diluted earnings per common share was $0.12 in the first quarter ended May 1, 2021 compared to a loss per common share of $1.76 in the prior year first quarter. Adjusted fully diluted earnings per common share, which is adjusted net income on a fully diluted weighted average shares outstanding basis, was $0.05, compared to negative $0.26 in the same quarter of the prior year.

EBITDA and Adjusted EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was $4.1 million in the quarter ended May 1, 2021 compared to a negative $40.4 million in the prior year quarter representing an improvement of $44.5 million over the prior year quarter. Adjusted EBITDA for the quarter ended May 1, 2021, which excludes the impact of stock-based compensation expense, the impairment of property and equipment and right-of-use assets, the Restructuring Plan activities, net, the wage subsidy received from the Canadian government under the COVID-19 Economic Response Plan, and costs related to the implementation and configuration of software solutions amounted to $2.5 million compared to negative $0.9 million for the same period in the prior year. The increase in Adjusted EBITDA of $3.4 million is an outcome of the restructuring efforts resulting in the realignment of the business model to primarily an e-commerce and wholesale distribution model.

Summary of quarterly results

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

	Fiscal Year 2021	Fiscal Year 2020				Fiscal year 2019		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Sales	23,249	40,189	26,225	23,031	32,242	73,538	39,493	39,167
Net income (loss)	3,221	(27,222)	14,467	2,609	(45,788)	(5,701)	(10,830)	(11,344)
EBITDA	4,126	(25,918)	15,295	5,426	(40,367)	(1,097)	(4,548)	(4,829)
Adjusted EBITDA	2,505	5,384	3,834	1,365	(935)	9,971	(2,241)	361
Cash	31,321	30,197	21,925	34,285	39,343	46,338	28,044	29,725
Accounts receivable	6,570	6,157	7,669	6,757	4,371	6,062	5,430	3,913
Prepaid expenses and deposits	11,578	14,470	13,400	8,476	4,928	4,542	6,906	9,890
Inventories	29,258	23,468	26,176	24,354	23,450	22,363	32,638	27,893
Trade and other payables	6,154	4,152	3,621	6,460	18,000	20,794	21,155	13,810

Liquidity and Capital Resources

As at May 1, 2021, we had $31.3 million of cash, primarily held by major Canadian financial institutions.

Working capital, excluding liabilities subject to compromise of $98.4 million, was $65.6 million as at May 1, 2021, compared to $62.7 million as at January 30, 2021. In light of implementing the Restructuring Plan, the Company expects to use cash on hand to pay for the settlement of obligations, which as a result of creditors accepting the Plan of Arrangement on June 11, 2021, is expected to approximate $18.0 million and become due and payable to our Monitor on June 30, 2021, for ultimate distribution to creditors.

Our working capital requirements are for the purchase of inventory and payment of payroll 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. We fund our capital expenditures and working capital requirements from a combination of cash on hand and cash provided by operating activities.

As at May 1, 2021, the Company has financial commitments in connection with the purchase of goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs. Purchase obligations, net of $7.2 million of advances, amounting to $13.0 million are expected to be discharged within 12 months.

Cash Flow

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

	For the year ended	
	May 1, 2021 $	May 2, 2020 $
Cash flows provided by (used in) :		
Operating activities	**1,307**	**(4,056)**
Financing activities	**(183)**	**(4,376)**
Investing activities	**—**	**1,437**
Increase (decrease) in cash	**1,124**	**(6,995)**

Cash flows provided by (used in) from operating activities. Net cash provided by operating activities amounted to $1.3 million for the three-months ended May 1, 2021, representing a change of $5.4 million from the net cash used in operations of $4.1 million in the first quarter of the prior year. The improvement is primarily due to a favourable change in non-cash working capital balances.

Cash flows used in financing activities. Net cash flows used in financing activities of $0.2 million during the three-month period ended May 1, 2021 represents a reduction of $4.2 million compared to the prior year first quarter due to a reduction of lease liabilities resulting from the termination of our store leases.

Cash flows provided by investing activities. Cash flows provided by investing activities of $1.4 million in the quarter ended May 2, 2020 is primarily due to the repayment of a loan from a Company controlled by an executive employee, partially offset by capital expenditures.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for purchase obligations. As at May 1, 2021, the Company has financial commitments in connection with the purchase of goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs. Purchase obligations, net of $7.2 million of advances, amounting to $13.0 million (January 30, 2021 - $14.1 million, net of $6.8 million of advances) are expected to be discharged within 12 months.

The Plan of Arrangement approved by the Company's creditors on June 11, 2021 provides that the Company will distribute an aggregate amount of approximately $18.0 million to its creditors in full and final settlement of all claims affected by the Plan of Arrangement. Such distribution will take place after and is conditional upon Court approvals, the whole as provided in the Plan of Arrangement. As part of the Plan of Arrangement, the Company will provide the Monitor with the funds to settle the creditor claims by June 30, 2021, at which time the Monitor will distribute amounts to creditors according to the Court approved Plan of Arrangement.

Critical Accounting Policies and Estimates

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

Recently Issued Accounting Standards

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

[Table of Contents](#)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive and Brand Officer and our President, Chief Financial and Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of May 1, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the assessment of our disclosure controls and procedures, our management concluded that our disclosure controls and procedures were effective as of May 1, 2021.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting during our quarter ended May 1, 2021 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Except as noted above, we are not at present a party to any legal proceedings, government actions, administrative actions, investigations or claims that are pending against us or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business, financial condition or operating results. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

Pursuant to the Amended and Restated Initial Order from the Québec Superior Court, as amended, there is currently a stay of all proceedings against or in respect of the Company or affecting the Company’s business operations and activities, except with the leave of the Québec Superior Court, until July 16, 2021.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our Form 10-K for our fiscal year ended January 30, 2021, other than as set out below.

The section of our Form 10-K for the fiscal year ended January 30, 2021 entitled “Risks Associated with the Restructuring Plan” on pages 15 to 18 thereof is hereby replaced in its entirety by the following:

Risks Associated with the Restructuring Plan

We are subject to the risks and uncertainties associated with the Restructuring Plan, and even if our Restructuring Plan is completed, we may not be able to achieve our stated goals.

As set out above, on July 8, 2020, we obtained the Initial Order pursuant to the CCAA from the Québec Superior Court in order to implement the Restructuring Plan and on July 9, 2020, the United States Bankruptcy Court for the District of Delaware entered an order in favor of the Company under Chapter 15 of the United States Bankruptcy Code which provisionally recognized the proceedings under the CCAA and enforced the Initial Order, in effect providing protection to the Company from creditor action against its assets in the United States. On July 16, 2020, we obtained an Amended and Restated Initial Order from the Québec Superior Court, extending the stay of all proceedings against the Company to September 17, 2020. On September 17, 2020, the Québec Superior Court extended the stay of all proceedings against the Company to December 15, 2020 and issued a Claims Process Order establishing the claims procedures for the Company’s creditors under the CCAA. The Claims Process Order, among other things, set November 6, 2020 as the time by which creditors had to submit their claims to PwC, the Court-appointed Monitor. On December 15, 2020, the Québec Superior Court extended the stay of all proceedings against the Company to March 19, 2021. On March 19, 2021, the Québec Superior Court extended the stay of all proceedings against the Company to June 4, 2021, and addressed certain administrative matters. On May 7, 2021, the Company obtained an order from the Québec Superior Court authorizing the Company to file its Plan of Arrangement under the CCAA and to call a creditors’ meeting to be held on June 11, 2021. The Québec Superior Court order also extended to July 16, 2021 the stay of all proceedings against the Company under the CCAA. At the creditors’ meeting held on June 11, 2021, the Plan of Arrangement was approved by the requisite majorities of creditors of DAVIDsTEA Inc. and our subsidiary DAVIDsTEA (USA) Inc., respectively, in accordance with the CCAA, that is, a simple majority of creditors of DAVIDsTEA Inc. and of DAVIDsTEA (USA) Inc., voting separately, whose claims are affected by the Plan of Arrangement, representing in each case at least two-thirds in dollar value of all such claims duly filed in accordance with the CCAA proceedings. The Company will seek a sanction order for the Plan of Arrangement from the Québec Superior Court at a hearing scheduled for June 16, 2021. If the sanction order is granted, the Company will seek recognition thereof from the United States Bankruptcy Court for the District of Delaware under Chapter 15 of the United States Bankruptcy Code at a hearing scheduled for June 17, 2021.

Our Plan of Arrangement provides that we will remit the required funds to PwC no later than five business days after the issuance, if any, of a final order from the United States Bankruptcy Court for the District of Delaware recognizing and enforcing the sanction order from the Québec Superior Court or such later date as may be acceptable to us, in consultation to PwC, and that such funds will be distributed by PwC to our creditors, as applicable, as soon as practicable thereafter.

For the duration of the Restructuring Plan, our operations and our ability to develop and execute our business plan, as well as our continuation as a going concern, are subject to the risks and uncertainties associated with restructuring in general, including:

- our ability to obtain a sanction order from the Québec Superior Court with respect to the Restructuring Plan and to obtain approval from the Québec Superior Court with respect to motions, if any, filed from time to time in connection with the Restructuring Plan;

- our ability to obtain recognition of the sanction order from the United States Bankruptcy Court for the District of Delaware under Chapter 15 of the United States Bankruptcy Code in connection with the Restructuring Plan and to obtain approval with respect to motions, if any, filed from time to time under Chapter 15 of the United States Bankruptcy Code in connection with the Restructuring Plan;

- our ability to maintain our relationships with our suppliers, service providers, customers, employees and other third parties;

- our ability to maintain contracts that are critical to our operations;

- our ability to develop and execute our business plan;

- our ability to maintain our listing on the Nasdaq Global Market; and

- our lowered ability to obtain acceptable and appropriate financing.

Because of the risks and uncertainties associated with the Restructuring Plan, we cannot accurately predict or quantify the ultimate impact of events that will occur during the Restructuring Plan that may be inconsistent with our plans.

Even if our Restructuring Plan is completed, we may continue to face a number of risks, such as further deterioration in economic conditions, including in light of the COVID-19 pandemic, changes in consumer habits, changes in demand for our products and increasing expenses. Some of these risks become more acute when a restructuring under the CCAA continues for a protracted period without indication of how or when the restructuring may be completed. As a result of these risks and others, we cannot guarantee that our Restructuring Plan will achieve our stated goals, and there is substantial doubt regarding our ability to continue as a going concern.

As a result of the Restructuring Plan, our financial results may be volatile and may not reflect historical trends.

For the duration of the Restructuring Plan, we expect our financial results to continue to be volatile as restructuring activities and expenses, lease terminations, and claims assessments significantly impact our consolidated financial statements. As a result, our historical financial performance is likely not indicative of our financial performance after the date of the Initial Order. In addition, if we emerge from the Restructuring Plan, the amounts reported in subsequent consolidated financial statements may materially change relative to our historical consolidated financial statements, including as a result of revisions to our operating plans in connection with the Restructuring Plan.

Our Plan of Arrangement is based in large part upon assumptions and analyses developed by us; if these assumptions and analyses prove to be incorrect, our Plan of Arrangement may be unsuccessful in its execution.

Our Plan of Arrangement reflects assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we consider appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to:

- our ability to transition to online sales and sales through wholesale channels than from sales through retail stores;

- our ability to generate adequate liquidity or access financing sources;

- our ability to maintain customers’ confidence in our viability as a continuing entity and to attract and retain sufficient business from them;

- our ability to retain key employees; and

- the overall strength and stability of general economic conditions and the retail industry, both in Canada and the United States.

The failure of any of these factors could materially adversely affect the successful restructuring of our business.

In addition, our Plan of Arrangement relies on financial projections, including with respect to revenues, earnings, capital expenditures, payment of liabilities and cash flow. Financial projections are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial projections will not be entirely accurate. The financial projections may be even more speculative than normal in light of the COVID-19 pandemic. Accordingly, we expect that our actual financial condition and results of operations will differ, perhaps materially, from what we have anticipated. Consequently, there can be no assurance that the results or developments contemplated by our Plan of Arrangement under the CCAA will occur or, even if they do occur, that they will have the anticipated effects on us or our business or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of the Restructuring Plan.

Trading in our shares for the duration of the Restructuring Plan poses substantial risks.

The Company’s stockholders are cautioned that trading in shares of the Company for the duration of the Restructuring Plan may be highly speculative and pose substantial risks due to the uncertainty related to the Restructuring Plan. Accordingly, the Company urges extreme caution with respect to existing and future investments in its shares.

We may be subject to claims that will not be discharged in the Restructuring Plan, which could have a material adverse effect on our financial condition and results of operations.

The CCAA provides, in effect, that approval of our Plan of Arrangement will discharge the Company from substantially all debts which arose prior to the Initial Order. With few exceptions, all such debts (i) are subject to compromise and/or treatment under our Plan of Arrangement and/or (ii) will be discharged in accordance with the terms of the Plan of Arrangement, if the Court orders referred to below are obtained. Such debts will not be considered compromised until our Plan of Arrangement is sanctioned by the Québec Superior Court and the United States Bankruptcy Court for the District of Delaware as referred to below and until we have fully implemented the Plan of Arrangement in accordance with its terms. Any claims not subject to compromise and/or treatment under the Plan of Arrangement or not otherwise discharged in accordance with the Plan of Arrangement could be asserted against us and may have an adverse effect on our financial condition and results of operations on a post-Restructuring Plan basis.

We may not have sufficient cash to maintain our operations following the Restructuring Plan.

We face considerable uncertainty regarding the adequacy of our liquidity and capital resources. In addition to the cash required to fund our ongoing operations, we have incurred significant professional fees and other expenses in connection with the Restructuring Plan and expect that such fees and other expenses will continue throughout the Restructuring Plan process. We cannot provide any assurance that our cash on hand and cash flow from operations will be sufficient to fund our operations and allow us to satisfy our obligations following the Restructuring Plan.

Operating under Court protection for an extended period of time may harm our business.

An extended period of operations under protection of the Québec Superior Court could have a material adverse effect on our business, financial condition, results of operations and liquidity. During such time as our Restructuring Plan is ongoing, our senior management has been and will be required to spend a significant amount of time and effort dealing with the Restructuring Plan instead of focusing exclusively on our business operations. A further prolonged period of operating under protection of the Québec Superior Court also may make it more difficult to retain management and other key personnel necessary for the success and growth of our business. In addition, the longer the Restructuring Plan continues, the more likely it is that our customers and suppliers will lose confidence in our ability to restructure our business successfully and will seek to establish alternative commercial relationships. Furthermore, so long as the Restructuring Plan continues, we will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Restructuring Plan.

We may not be able to obtain Court approval of the Plan of Arrangement under the CCAA.

In connection with the Restructuring Plan, on June 11, 2021 we obtained approval from our creditors for the Plan of Arrangement by the requisite majority votes set out in the CCAA. We will have to obtain a sanction order for the Plan of Arrangement from the Québec Superior Court, at a hearing scheduled for June 16, 2021. In order to obtain the sanction order, we will have to appear before the Québec Superior Court and demonstrate to the Court that the Plan of Arrangement is fair and reasonable, independent of creditor approval. There can be no assurance that we will be able to obtain a sanction order for the Plan of Arrangement from the Québec Superior Court. If the sanction order is granted, the Company will seek recognition thereof from the United States Bankruptcy Court for the District of Delaware under Chapter 15 of the United States Bankruptcy Code at a hearing scheduled for June 17, 2021. There can be no assurance that we will be able to obtain recognition of a sanction order, if any, from the United States Bankruptcy Court for the District of Delaware.

If we do not obtain the foregoing Court approvals, we may have to submit a new or amended Plan of Arrangement to our creditors for approval. If such new or amended Plan of Arrangement is not approved by our creditors by the requisite majority votes under the CCAA, it is possible that our creditors will ask the Québec Superior Court to lift the stay of proceedings currently in effect and exercise their various legal recourses against us.

We may experience increased levels of employee attrition as a result of the Restructuring Plan.

As a result of the Restructuring Plan, we may experience increased levels of employee attrition, and our employees likely will face considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale could adversely affect our business and results of operations. Our ability to engage, motivate and retain key employees or take other measures intended to motivate and incentivize key employees to remain with us through the Restructuring Plan may be limited. The loss of services of members of our senior management team could impair our ability to execute our strategy and implement operational initiatives, which would likely have a material adverse effect on our business, financial condition and results of operations.

We are subject to actions and decisions of our creditors and other third parties who have interests in our Restructuring Plan that may be inconsistent with our interests.

The decisions of our creditors and other third parties could significantly affect our business and operations in various ways. For example, negative publicity or events associated with the Restructuring Plan may adversely affect our relationships with our suppliers, service providers, employees and customers, which in turn could adversely affect our operations and financial condition. Because of the risks and uncertainties associated with the Restructuring Plan, we cannot predict or quantify the ultimate impact that events occurring during the Restructuring Plan will have on our business, financial condition, results of operations, or the certainty as to our ability to continue as a going concern. Under our Plan of Arrangement, if approved, we will settle liabilities for amounts other than those reflected in our consolidated financial statements. Further, our Plan of Arrangement may materially change the amounts and classifications reported in our consolidated historical financial statements.

We may not be able to obtain financing.

Because of our financial condition, we have heightened exposure to, and less ability to withstand, the operating risks that are customary in the retail industry, exacerbated by the COVID-19 pandemic. Any of these risks could result in our need for substantial funding. A number of factors, including the Restructuring Plan, our financial results in recent years, and the competitive environment we face, adversely affect the availability and terms of funding that might be available to us during, and upon completion of, the Restructuring Plan. As such, we may not be able to source capital at rates acceptable to us, or at all, to fund current operations on completion of the Restructuring Plan. We have also defaulted on our credit agreement in the past. In the event we need funds to execute our strategy, we could have limited access to liquidity, which would have negative consequences on our long-term business plan. Our Restructuring Plan may raise serious doubts about our ability to borrow money on terms favorable to us, which would have negative consequences on our ability to achieve our long-term business plan or to take advantage of future opportunities.

Our inability to obtain necessary funding on acceptable terms would have a material adverse impact on us and on our ability to sustain our operations. We do not currently have a credit facility or loan with a bank or financial institution and can give no assurance that we will be able to obtain any such facility or loan on terms acceptable to us, or at all.

Table of Contents

Item 2. Unregistered Sales of Equity Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

31.1	Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DAVIDsTEA INC.

Date: June 15, 2021

By: */s/ Sarah Segal*
Name: Sarah Segal
Title: Chief Executive and Brand Officer

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14 and 15d-14
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sarah Segal, Chief Executive and Brand Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2021 of DAVIDsTEA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 15, 2021

/s/ Sarah Segal
Sarah Segal
Chief Executive and Brand Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14 and 15d-14
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank Zitella, President, Chief Financial and Operating Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2021 of DAVIDsTEA Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 15, 2021

/s/ Frank Zitella
Frank Zitella
President, Chief Financial and Operating Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of DAVIDsTEA Inc. (the “Company”) on Form 10-Q for the period ended May 1, 2021, as filed with the Securities and Exchange Commission (the “Report”), I, Sarah Segal, Chief Executive and Brand Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 15, 2021

/s/ Sarah Segal
Sarah Segal
Chief Executive and Brand Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of DAVIDsTEA Inc. (the “Company”) on Form 10-Q for the period ended May 1, 2021, as filed with the Securities and Exchange Commission (the “Report”), I, Frank Zitella, President, Chief Financial and Operating Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 15, 2021

/s/ Frank Zitella
Frank Zitella
President, Chief Financial and Operating Officer