



DAVIDsTEA Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 29, 2023 and April 30, 2022

DAVIDsTEA Inc.

Interim Consolidated Balance Sheets

(Unaudited, and amounts in thousands of Canadian dollars)

	<u>Note</u>	<u>As at</u>	
		<u>April 29,</u> <u>2023</u>	<u>January 28,</u> <u>2023</u>
		<u>\$</u>	<u>\$</u>
ASSETS			
Current			
Cash		19,583	22,440
Accounts and other receivables		2,769	3,258
Inventories		18,184	19,522
Prepaid expenses and deposits		<u>4,992</u>	<u>5,839</u>
Total current assets		45,528	51,059
Property and equipment		1,009	510
Intangible assets		1,595	1,679
Right-of-use assets		<u>8,701</u>	<u>9,345</u>
Total assets		<u>56,833</u>	<u>62,593</u>
LIABILITIES AND EQUITY			
Current			
Trade and other payables		9,057	12,310
Deferred revenue		5,181	5,363
Current portion of lease liabilities		<u>2,543</u>	<u>2,543</u>
Total current liabilities		16,781	20,216
Non-current portion of lease liabilities		<u>7,047</u>	<u>7,682</u>
Total liabilities		23,828	27,898
Commitments and contingencies			
EQUITY			
Share capital	4	114,165	114,163
Contributed surplus		2,770	2,530
Deficit		(87,158)	(85,175)
Accumulated other comprehensive income		<u>3,228</u>	<u>3,177</u>
Total equity		<u>33,005</u>	<u>34,695</u>
Total liabilities and equity		<u>56,833</u>	<u>62,593</u>

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

DAVIDsTEA Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss

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

	Note	For the three-months ended	
		April 29, 2023 \$	April 30, 2022 \$ (Restated - Note 2)
Sales	8	14,313	20,287
Cost of sales	5	8,541	12,079
Gross profit		5,772	8,208
Selling, general and administration expenses	6	7,853	10,050
Results from operating activities		(2,081)	(1,842)
Finance costs		182	171
Finance income		(280)	(39)
Net loss		(1,983)	(1,974)
Other comprehensive income:			
Cumulative translation adjustment		51	18
Other comprehensive income, net of tax		51	18
Total comprehensive loss		(1,932)	(1,956)
Net loss per share:			
Basic	7	(0.07)	(0.07)
Fully diluted	7	(0.07)	(0.07)
Weighted average number of shares outstanding:			
Basic	7	26,623,773	26,426,055
Fully diluted	7	26,623,773	26,426,055

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

DAVIDsTEA Inc.

Interim Consolidated Statements of Cash Flows (Unaudited and amounts in thousands of Canadian dollars)

	For the three-months ended	
	April 29, 2023	April 30, 2022
	\$	\$
OPERATING ACTIVITIES		
Net loss	(1,983)	(1,974)
Items not affecting cash and other reconciling items:		
Depreciation of property and equipment	69	76
Amortization of intangible assets	138	140
Amortization of right-of-use assets	644	650
Interest on lease liabilities	135	167
Amortization of financing fees	47	—
Stock-based compensation expense	243	310
Sub-total	(707)	(631)
Net change in non-cash working capital balances related to operations	(758)	(1,047)
Cash flows used in operating activities	(1,465)	(1,678)
FINANCING ACTIVITIES		
Payment of lease liabilities	(770)	(749)
Cash flows used in financing activities	(770)	(749)
INVESTING ACTIVITIES		
Additions to property and equipment	(568)	—
Additions to intangible assets	(54)	—
Cash flows used in investing activities	(622)	—
Decrease in cash during the year	(2,857)	(2,427)
Cash, beginning of the year	22,440	25,107
Cash, end of the year	19,583	22,680
Supplemental Information		
Cash paid for:		
Interest (classified as financing activities)	142	172
Cash received for:		
Interest	280	39

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DAVIDsTEA Inc.

Interim Consolidated Statements of Equity (Deficiency)

(Unaudited and amounts in thousands of Canadian dollars)

	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance, January 28, 2023	114,163	2,530	(85,175)	3,177	34,695
Net loss for the three-months ended April 29, 2023	—	—	(1,983)	—	(1,983)
Other comprehensive income	—	—	—	51	51
Total comprehensive loss (income)	—	—	(1,983)	51	(1,932)
Common shares issued on vesting of restricted stock units	2	(3)	—	—	(1)
Stock-based compensation expense	—	243	—	—	243
Balance, April 29, 2023	114,165	2,770	(87,158)	3,228	33,005
Balance, January 29, 2022 (Restated - Note 2)	113,605	2,256	(70,491)	2,945	48,315
Net loss for the three-months ended April 30, 2022	—	—	(1,974)	—	(1,974)
Other comprehensive income	—	—	—	18	18
Total comprehensive loss (income)	—	—	(1,974)	18	(1,956)
Common shares issued on vesting of restricted stock units	6	(12)	(8)	—	(14)
Stock-based compensation expense	—	310	—	—	310
Balance, April 30, 2022 (Restated - Note 2)	113,611	2,554	(72,473)	2,963	46,655

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

DAVIDsTEA Inc.

Notes to Interim Consolidated Financial Statements

For the three-month periods ended April 29, 2023 and April 30, 2022

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

1. CORPORATE INFORMATION

The unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary, DAVIDsTEA (USA) Inc., (collectively, the “Company”) for the three-month periods ended April 29, 2023 and April 30, 2022 were approved and authorized for issue in accordance with a resolution of the Board of Directors on June 13, 2023. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the TSX Venture Exchange under the symbol “DTEA”. The registered office is located at 5430, Ferrier Street, Town of Mount-Royal, 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 variety boxes through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 3,800 grocery stores and pharmacies, and 19 company-owned storefronts across Canada. The Company offers primarily proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health, and lifestyle elements of tea. With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company launches seasonally driven “collections” with a mission of making tea fun and accessible to all.

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

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

2. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). Accordingly, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended January 28, 2023, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. In management’s opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies and methods of computation as outlined in Note 3 of the audited consolidated financial statements for the year ended January 28, 2023.

Comparative figures

Certain comparative figures for the quarter ended April 30, 2022 have been reclassified to conform with the current year’s presentation. These adjustments include reclassifying \$756 of selling, general and administrative expenses to an increase in cost of sales, in the amount of \$608, and a decrease in sales, in the amount of \$148, as well as certain reclassification within equity accounts which increased share capital by \$71, decreased contributed surplus by \$251 and decreased the deficit by \$180. These adjustments had no effect on total equity (deficiency) or net loss for the quarter ended April 30, 2022.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In preparing these unaudited condensed interim consolidated financial statements, critical judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those referred to in Note 4 of the audited consolidated financial statements for the year ended January 28, 2023.

4. SHARE CAPITAL

Issued and Outstanding

	As at	
	April 29, 2023	January 28, 2023
Share Capital	\$ 114,165	\$ 114,163
Common Shares	26,624,108	26,623,068

During the three-month period ended April 29, 2023, 1,040 common shares (April 30, 2022 – 3,575 common shares) were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of \$2, net of tax (April 30, 2022 – \$6) and a reduction in contributed surplus of \$3 (April 30, 2022 – \$12).

Stock-based compensation

As at April 29, 2023, 726,925 (April 30, 2022 - 1,065,688) common shares remain available for issuance under the 2015 Omnibus Plan.

No stock options were granted during the three-month periods ended April 29, 2023 and April 30, 2022. As at April 29, 2023, no options remain outstanding (April 30, 2022 – 3,490 options with a weighted average exercise price of \$6.32).

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

	For the three-months ended			
	April 29, 2023		April 30, 2022	
	RSUs outstanding #	Weighted average fair value per unit (1) \$	RSUs outstanding #	Weighted average fair value per unit (1) \$
Outstanding, beginning of period	1,438,839	2.25	1,282,790	2.60
Forfeitures	(43,248)	2.11	(27,466)	2.28
Vested	(1,040)	1.48	(3,575)	1.71
Vested, withheld for tax	(1,084)	1.48	(3,723)	1.71
Outstanding, end of period	<u>1,393,467</u>	<u>2.26</u>	<u>1,248,026</u>	<u>2.62</u>

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

5. COST OF SALES

Included in cost of sales are the following expenses:

	<u>For the three-months ended</u>	
	<u>April 29,</u>	<u>April 30,</u>
	<u>2023</u>	<u>2022</u>
	<u>\$</u>	<u>\$</u>
Cost of goods sold	4,398	6,447
Retail occupancy costs (1)	782	773
Distribution and handling costs	1,539	1,950
Delivery costs	1,627	2,230
Warehouse salaries, amortization of right-of-use-assets and other	195	679
	<u>8,541</u>	<u>12,079</u>

(1) As at April 29, 2023, includes variable rent of \$333 and amortization of right-of-use assets of \$441 (April 30, 2022 – \$322 and \$447 respectively).

6. SELLING, GENERAL AND ADMINISTRATION EXPENSES

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

	<u>For the three-months ended</u>	
	<u>April 29,</u>	<u>April 30,</u>
	<u>2023</u>	<u>2022</u>
	<u>\$</u>	<u>\$</u>
Wages, salaries and employee benefits	2,985	3,408
Marketing expenses	1,000	2,076
IT ongoing expenses	1,807	1,736
Software implementation and configuration	—	755
Director & officer and other insurance	324	347
Professional and consulting fees	270	133
Credit card fees	246	402
Selling Supplies	168	122
Stock-based compensation	243	310
Amortization of intangible assets	138	140
Depreciation of property and equipment	69	76
Amortization of financing fees	47	—
Amortization right-of-use asset	42	42
Other selling, general and administration	514	503
	<u>7,853</u>	<u>10,050</u>

(Restated -
Note 2)

7. LOSS PER SHARE

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

	For the three-months ended	
	April 29, 2023	April 30, 2022
	\$	\$
Net loss for basic EPS	(1,983)	(1,974)
Weighted average number of shares outstanding:		
Basic	26,623,773	26,426,055
Fully diluted	26,623,773	26,426,055
Net loss per share:		
Basic	(0.07)	(0.07)
Fully diluted	(0.07)	(0.07)

For the quarters ended April 29, 2023 and April 30, 2022, because of the net loss recorded during the period, the stock options and RSUs as disclosed in note 4 are anti-dilutive.

8. SEGMENT INFORMATION

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

The Company derives revenue from the following products:

	For the three-months ended	
	April 29, 2023	April 30, 2022
	\$	\$
Tea	12,752	17,827
Tea accessories	1,379	2,099
Food and beverages	182	361
	14,313	20,287

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

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

	For the three-months ended		
	April 29, 2023		
	Canada	US	Consolidated
	\$	\$	\$
Sales	12,193	2,120	14,313
Cost of sales	7,305	1,236	8,541
Gross profit	4,888	884	5,772
Selling, general and administration expenses (allocated)	2,126	253	2,379
Results from operating activities before undernoted	2,762	631	3,393
Selling, general and administration expenses (non-allocated)			5,474
Results from operating activities			(2,081)
Finance costs			182
Finance income			(280)
Net loss			(1,983)

	For the three months-ended		
	April 30, 2022		
	Canada	US	Consolidated
	\$	\$	\$
	(Restated - Note 2)	(Restated - Note 2)	(Restated - Note 2)
Sales	16,598	3,689	20,287
Cost of sales	9,815	2,264	12,079
Gross profit	6,783	1,425	8,208
Selling, general and administration expenses (allocated)	2,857	599	3,456
Results from operating activities before undernoted	3,926	826	4,752
Selling, general and administration expenses (non-allocated)			6,594
Results from operating activities			(1,842)
Finance costs			171
Finance income			(39)
Net loss			(1,974)

9. CONTINGENCIES

The Company sent an early termination notice to a service provider in connection with a service agreement for the management of its inventory warehousing and distribution, effective July 23, 2023. While the service provider has indicated that it may dispute the Company's right to unilaterally accelerate termination of the agreement, the Company is fully confident that it has the legal right to do so. The eventual outcome of any dispute between the parties regarding termination of the service agreement cannot be determined at this time.