DAVIDsTEA INC.

ANNUAL INFORMATION FORM

For the fiscal year ended January 28, 2023

April 28, 2023

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In this annual information form ("AIF"), unless the context indicates otherwise, the terms "we", "our", "us", "DAVIDsTEA" and the "Company" mean DAVIDsTEA Inc. together with its wholly-owned subsidiary DAVIDsTEA (USA) Inc.

Unless otherwise indicated, all monetary amounts in this AIF are in Canadian dollars, all references to "$", "Canadian dollars" and "dollars" mean Canadian dollars and all references to "U.S. dollars" and "US $" mean U.S. dollars.

This AIF contains certain trademarks, which are protected under applicable intellectual property laws and are our property. Solely for convenience, our trademarks and trade names referred to in this AIF may appear without the ® or TM symbol, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

FORWARD-LOOKING STATEMENTS

Certain statements in this AIF include statements that express the Company's opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and are, or may be deemed to be, "forward-looking statements" within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes", "expects", "may", "will", "should", "approximately", "intends", "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 and include statements regarding our intentions, beliefs or current expectations concerning, among other things, the Company's strategy of transitioning to e-commerce and wholesale sales, future sales through the Company's e-commerce and wholesale channels, the Company's results of operations, financial condition, liquidity and prospects, including the lingering impact of the COVID-19 pandemic and geopolitical tensions on the global macroeconomic environment.

Forward-looking statements made in this AIF are based on a number of assumptions that the Company believed were reasonable on the day it made the forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations expressed in or implied by the forward-looking statements include:

- 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 who are instrumental to growing our online and wholesale channel businesses;
- Our ability to overcome changes in economic conditions, including a prolonged recessionary environment, or changes in the rate of inflation or deflation, employment rates or currency exchange rates;
- Our ability to maintain and enhance our brand image;
- Significant competition within our industry;
- Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, especially in light of potential global health risks similar to COVID-19 and continuing geopolitical uncertainty caused by acts of war and escalating aggression;
- Actual or attempted breaches of data security; 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 the Company as of the date of this AIF, and while the Company believes such information forms a reasonable basis for such statements, such information may be limited or incomplete, and these 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 AIF 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 AIF and we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this AIF, 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 AIF 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.

While we believe these opinions and expectations are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the “Risk Factors and Uncertainties” detailed in this AIF.

MARKET AND INDUSTRY DATA

The Company has obtained certain market and industry data presented in this AIF from a combination of third-party sources and the estimates of management. Although the Company believes that these third-party sources and its management estimates are reliable, the accuracy and completeness of such data is not guaranteed and has not been verified by any independent sources. Market and industry data, including estimates and projections relating to size of market and market share, is inherently imprecise and cannot be verified due to limitations on the availability and reliability of data inputs, the voluntary nature of the data-gathering process and other limitations inherent in any market research or other survey. Management’s estimates are based on internal research, its knowledge of the relevant market and industry and extrapolations from third-party sources. While the Company is not aware of any misstatements regarding the market and industry data presented in this AIF, such data involve risks and uncertainties and are subject to change based on various factors, including those factors discussed under “Caution Regarding Forward-Looking Statements” and “Risk Factors and Uncertainties” in this AIF.

CORPORATE STRUCTURE

DAVIDsTEA Inc. was incorporated under the *Canada Business Corporations Act* on April 29, 2008. The Company’s head and registered office is at 5430 Ferrier, Town of Mount Royal, Québec, H4P 1M2. The Company owns a 100% equity interest in its sole subsidiary, DAVIDsTEA (USA) Inc., a company organized under the laws of Delaware. The telephone number at our principal executive offices is (514) 739-0006 and our website address is www.davidstea.com.

GENERAL DEVELOPMENT OF THE BUSINESS

The Company offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts in North America through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, and in Canada through both its wholesale customers which include over 3,800 grocery stores and pharmacies, and 19 company-owned storefronts. The Company offers 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.

Our 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.

As at the date of this AIF, the Company employs a total of 124 full-time employees and 165 part-time employees in Canada. Of those employees, 86 are employed in our corporate office, 30 in our production and distribution operations and 173 in our store network. None of our employees is represented by a labour union.

The Company’s fiscal year ends on the Saturday closest to January 31. This typically results in a 52-week year, but occasionally gives rise to an additional week, resulting in a 53-week year. Fiscal years are designated in this AIF by the calendar year in which the fiscal year commenced. All references herein to the Company’s fiscal years are as follows:

Fiscal year	Year ended	Number of weeks
Fiscal 2020	January 30, 2021	52
Fiscal 2021	January 29, 2022	52
Fiscal 2022	January 28, 2023	52

Events in the Development of the Business

The Company was founded in Montréal, Québec in 2008 by Herschel and David Segal. They sought to build a brand and company to respond to consumers’ increasing focus on health and wellness by leveraging tea’s potential health benefits and providing high-quality products. In 2015, the Company completed an initial public offering of 5,100,000 shares of common stock at a price of US $19.00 per share and was listed on the NASDAQ Global Market under the symbol “DTEA”.

Developments in the Past Three Years

Developments in Fiscal 2020

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 its retail stores in Canada and the United States.

Following a careful review of available options to stem the losses generated primarily 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, 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. On that same day, the Company obtained an 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. The Company obtained a similar order for DAVIDsTEA (USA) Inc., its wholly-owned U.S. subsidiary, under Chapter 15 of the *United States Bankruptcy Code*. As part of the Restructuring Plan and further to obtaining the Initial Order, on July 10, 2020 we 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, 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. On July 30, 2020, we sent notices to terminate leases for an additional 82 of our 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 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 5:00 p.m. (eastern time) on November 6, 2020 as the time by which creditors of the Company and of DAVIDsTEA (USA) Inc. had to submit their claims to PwC. The Court also extended the stay of all proceedings against the Company then in effect to December 15, 2020. The Québec Superior Court subsequently extended the stay of all proceedings against the Company to June 4, 2021.

Developments in Fiscal 2021

On June 11, 2021, the Plan of Arrangement under the CCAA was approved by the requisite majorities of creditors of the Company and of DAVIDsTEA (USA) Inc., its wholly-owned U.S. subsidiary, respectively, following which the Company obtained a sanction order on June 16, 2021 from the Québec Superior Court for the Plan of Arrangement. On June 17, 2021, the Company obtained a recognition order from the United States Bankruptcy Court for the District of Delaware recognizing the sanction order issued by the Québec Superior Court, all in connection with the Plan of Arrangement under the CCAA. The recognition order was issued under Chapter 15 of the *United States Bankruptcy Code*. Following the issuance of the foregoing sanction order and recognition order, the Company funded PwC, the Court-appointed Monitor in the CCAA proceedings, with approximately $18 million for distribution to the creditors of DAVIDsTEA and of DAVIDsTEA (USA) Inc., in full and final settlement of all claims affected by the Plan of Arrangement. The funding of PwC completed DAVIDsTEA's legal obligations under the Plan of Arrangement. On September 9, 2021, PwC as Monitor filed a Certificate of Termination with the Québec Superior Court and declared the CCAA proceedings were terminated without further act or formality.

On October 19, 2021, DAVIDsTEA announced the expansion of its agreement with Loblaw Companies Limited, thereby enhancing its offering in communities across the Atlantic provinces, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, with new products available in Real Canadian Superstore® and Atlantic Superstore® locations. As a result of the expansion, select DAVIDsTEA products are now available in more than 1,250 Loblaw grocery and pharmacy storefronts across Canada.

On January 24, 2022, the Company scored 90.6 in Leger Marketing's WOW Digital Index, ranking fourth in the 2021 survey of the best online customer experience in Canada. This comprehensive study evaluated the online customer experience from online shopping to delivery, based on key online performance indicators.

Developments in Fiscal 2022

On August 31, 2022, the Company announced that it had entered into an agreement with the Bank of Nova Scotia for a revolving line of credit in an amount of $15 million. The line of credit is secured by first-ranking security in favour of the Bank. In addition, Investissement Québec provided a guarantee under its "Loan Loss Program", securing 50% of the indebtedness under the line of credit. This credit facility is subject to financial covenants which were not met at January 28, 2023, thereby rendering the facility unavailable.

On October 13, 2022, the Company announced an accelerated wholesale strategy, highlighted by an increased footprint within its store-in-store concept and the introduction of a new fully compostable, individually wrapped tea sachet format.

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

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

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

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

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

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

DESCRIPTION OF THE BUSINESS

Operations and Principal Products

We offer a significant variety of premium loose-leaf teas and pre-packaged teas, tea sachets, tea-related gifts and accessories. We also offer on-the-go craft tea beverages in our retail stores.

Teas

Our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts can be enjoyed by consumers at home, on-the-go or at work. Our different flavours of loose-leaf tea span eight different tea categories: white, green, oolong, black, pu'erh, mate, rooibos and herbal tea. Our tea collection features more than 30% certified organic teas, and to our knowledge makes us the largest organic loose-leaf provider on the market. We carry only responsibly sourced and fairtrade certified blends. Our teas and ingredients used in our tea blends are sourced from various regions around the world, including China, South Korea, Japan, Taiwan, Vietnam, India, Nepal, Kenya, Sri Lanka, South Africa, Thailand and Canada. In addition to loose-leaf teas, we sell pre-packaged teas and tea sachets to make the tea experience more convenient. Our tea-related gifts include special edition seasonal and holiday gift packages as well as novelty-themed gifts that continue to innovate with new themes, seasonal collections and visually appealing gift boxes designed for entertaining. Our tea gifts are substantially all either fully recyclable or compostable.

Tea Accessories

Our tea accessories are created to make the tea preparation process and tea experience more convenient, fun and easy at home or on-the-go. Tea accessories include tea mugs, travel mugs, teacup sets, teapots, tea makers, kettles, infusers, filters, frothers, tins and spoons. Many of our accessories are crafted with unique functional features to improve tea preparation and consumption as well as with visually appealing colours and designs consistent with our brand aesthetic.

Distribution

We have strategically pivoted the organization to serve consumer demand by leveraging our digital channels supported by emerging omni-channel fulfillment capabilities, including by online pick-up in store and curbside pick-up. These strategies align with rapidly evolving consumer preferences as we refocus our energies to provide consumers with an enhanced shopping experience on our online channels. We believe our continued efforts to transform our business to a digital-first organization will improve our customer experience, our overall performance, and ultimately position us for long-term growth.

Digital Retail

Our online store, www.davidstea.com, features our full assortment of premium loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts and accessories. To drive increased sales through our website, we utilize online-specific marketing and promotions in addition to employing banner advertisements, search engine optimization and pay-per-click arrangements on various social media platforms to help drive customer traffic to our website. The use of influencers and affiliates with like-minded brands are also helping to attract customers to our online store. We periodically enhance our online store with new features and functionality to improve our customers' experience and accessibility for mobile users. We have also launched a select assortment on the Amazon Marketplace that complements our full product assortment on our online store.

Wholesale

We sell our tea and related products to premium grocery and drugstore chains throughout Canada. We believe that the broad distribution of select tea blends helps to service not only existing customers but also attract new customers to our exclusive sachet tea offerings, while ultimately also driving greater brand awareness and traffic to our online and retail stores where our full selection of products including loose-leaf tea blends and packaged gifts become available.

Retail Stores

Over the last decade, our brand connected with consumers and created a reputation of quality and innovation driven primarily from our in-store experience. The secular decline in retail and consumers' move to many things digital has significantly impacted our business. We continue our transition to a digital-first organization, complemented by select stores strategically located throughout Canada and we continue to re-invent our in-store experience.

Our retail footprint consists of 18 mall-based stores and one kiosk in Canada. Each store exterior prominently displays the DAVIDsTEA teal signage and our in-store Tea Guides' passion for tea and wellness permeate our culture. A key element of the retail experience is our "Tea Wall," a focal point of the store. Our Tea Guides help to create a highly interactive and immersive multi-sensory experience for our customers. The Tea Guides facilitate customers' interaction with our products through education and sampling, which allows our customers the opportunity to appreciate the compelling attributes of tea as well as the ease of preparation.

Warehouse and Distribution Facilities

We distribute our loose-leaf teas, pre-packaged teas, tea sachets, tea-related gifts and accessories to our stores and our online customers from third-party distribution centres. In September 2021, we consolidated the North American distribution of our products to one facility located in Longueuil, Québec. Prior to this, the Company distributed products throughout Canada from Sherbrooke, Québec and throughout the United States from Champlain, New York using third-party logistics facilities in these locations. Our products are typically shipped to our customers via third-party national transportation providers multiple times per week. We also assemble finished goods from our production facility located in Montreal, Québec.

Foreign Operations

We do not have operations outside of Canada and the United States.

Sourcing and Manufacturing

We do not own or operate any tea estates or blending operations; instead, we work with vendors who source ingredients for our teas and tea blends from all over the world. Many of our tea blenders are in either Germany or the United States. Since DAVIDsTEA was founded in 2008, we have developed strong relationships with our vendors. These relationships are important, as we depend on our vendors to provide us with the highest quality teas and ingredients from around the world. Our quality control process includes both in-house testing and vendor testing. Therefore, in addition to bringing our designs for tea blends to fruition, our vendors play an important role in quality control and in ensuring our teas meet applicable regulatory guidelines. Our tea merchandise is sourced from several suppliers who manufacture to our unique and proprietary designs.

Intangible Properties

We regard intellectual property and other proprietary rights as important to our success. In addition to registered intellectual property, such as our patents and marks, we also rely upon trade secrets and know-how to develop and maintain our competitive position. We protect our intellectual property rights through a variety of methods, including by availing ourselves of trademark and trade secret laws and by entering into confidentiality agreements with vendors, employees, consultants and others who have access to our proprietary information.

We own several trademarks and service marks that have been registered with the Canadian Intellectual Property Office and the U.S. Patent and Trademark Office, including DAVIDsTEA®. We have also registered our stylized logos, and we own domain names, including www.davidstea.com. In addition, we have registered or have applied to register one or more of our marks in several foreign countries and expect to continue to do so in the future. However, we cannot be certain that we can obtain the registration for the marks in every country in which we apply for registration.

We must constantly protect against any infringement by competitors. If we believe a competitor has infringed or is infringing upon our rights, we may take legal action, which could result in litigation, in which case we may incur significant expenses and divert significant management attention from our business operations.

Marketing and Advertising

We use a variety of marketing and advertising mediums to drive brand health, customer acquisition and engagement. We leverage our customer database and respond to shopping behaviors and needs with content across email, site and digital media to drive relevance and urgency. Our diversified media mix spans traditional to digital to social media. We focus on productivity of marketing investment to drive increased effectiveness.

We are focused on amplifying all marketing and advertising efforts to help build brand awareness and increase sales on our digital platforms. Such marketing efforts include communications with our Super Steeper and Frequent Steeper loyalty members and using paid and non-paid media programs to help create demand on platforms such as Facebook, Instagram, Pinterest, LinkedIn, YouTube, TikTok and Yelp.

Cycles

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.

Competitive Conditions

We participate in a large and growing global tea market and more specifically, North America represents the fourth largest revenue generating sales of tea in the world, making the market opportunity very attractive. The markets for tea products in Canada and the United States are highly fragmented and we compete with many relatively small independently owned tea retailers and several regional tea retailers, as well as retailers of grocery products, including loose leaf teas, tea sachets and tea-related beverages. We also compete with other vendors of loose leaf teas, tea sachets and ready to drink teas, such as club stores, wholesalers and internet suppliers, as well as with houseware retailers and suppliers that offer tea wares and related accessories.

We believe that we differentiate ourselves from our competitors because we are considered by our customers as tea experts and by the excellence of our blended and straight teas, through our distinct retail experience, our broad product offering that ranges from loose leaf tea to in-store craft beverages, the potential broad demographic appeal of our brand, innovative tea products driven by customer insights, the effectiveness of our online store, www.davidstea.com, and digital and community focused events, and our passionate customer-focused culture supported by our experienced management team and dedicated board members.

Product Development

Our tea and merchandising teams seek premium teas and tea-related products from around the world. These teams consist of Tea Blend Developers, Product Designers, Category Merchants and Quality Control Personnel, who leverage our extensive experience in selecting and developing our product assortment. We constantly explore distinctive ingredients, flavours and trends that are popular in a variety of cultures, which we introduce to our customers through their incorporation in new teas. Our research and development team works with our blenders and suppliers to create new and exciting flavours of tea, which we rotate into our product offerings to attract new customers and to continue to pique the interest of existing customers. Our blending process focuses on magnifying the senses and bringing smell and taste to the forefront. We introduce new flavours and blends each month as well as seasonal holidays blends. Through extensive research, we have identified key customer segments and preferences to help evaluate our product assortment and we have developed an effective product release cadence. We believe our focus on innovation and continual product development are key differentiating factors for our brand that drives our customers' loyalty and supports our efforts to attract new customers.

Our innovation also extends to creating new and exciting merchandise to make the tea consumption experience more convenient and stimulating at home or on-the-go. Since our merchandising team designs and develops most of our products in-house, we believe we are better positioned than our competitors who do not have such an in-house function to create the unique and proprietary designs that make consuming loose-leaf tea easier and more enjoyable for our customers. We believe the combination of our product selection and our product innovation allows us to offer customers a distinctive assortment that differentiates us from other specialty tea retailers.

Management Information Systems

Our management information systems provide a full range of business process supports to our online and retail stores, our store operations and service support centre teams. Additionally, we operate our website on an independent platform. We utilize a combination of industry standard and customized software systems to provide various functions related to point of sales, inventory management, warehouse management and accounting and financial reporting.

Government Regulation

We are subject to labour and employment laws, import and trade restrictions laws, laws governing advertising, privacy and data security laws, safety regulations and other laws, including consumer protection regulations that apply to retailers and/or the promotion and sale of merchandise and the operation of stores and warehouse facilities. In Canada, we are subject to the regulatory authority of Canadian Food Inspection Agency ("CFIA") as well as provincial and local regulations. In the United States, we are subject to the regulatory authority of, among other agencies, the Federal Trade Commission ("FTC") and the U.S. Food and Drug Administration ("FDA"). We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We maintain third-party insurance for a number of risk management activities including, but not limited to, workers' compensation, general liability, property, directors and officers, cyber insurance and employee-related health care benefits. We evaluate our insurance requirements on an ongoing basis to ensure that we maintain adequate levels of coverage.

Environmental Protection

To our knowledge, we currently operate in compliance with all applicable environmental regulations.

Employees

As of January 28, 2023, we employed a total of 159 full-time employees and 173 part-time employees in Canada. Of those employees, 104 were employed in our corporate office, 49 in our production and distribution operations and 179 in our store network. None of our employees is represented by a labour union.

Our employees are united by our goal of infusing people's lives with "positivitea". Our human capital resources objectives include identifying, recruiting, retaining and incentivizing our existing and new employees. We foster a people-first approach through connection and collaboration, focusing on mental and physical wellness, diversity and inclusion, family, sustainability and community involvement. We offer hybrid and flexible work options, generous time off and professional development and training. We believe that fostering this openness and flexibility within our organization is how we encourage a collaborative work environment resulting in new ideas and continuous improvement.

Bankruptcy and Similar Procedures

On July 8, 2020, the Company announced that it was implementing the Restructuring Plan under the CCAA. On June 11, 2021, the Plan of Arrangement was approved by the requisite majorities of creditors of DAVIDsTEA Inc. and DAVIDsTEA (USA) Inc., respectively, in accordance with the CCAA, that is, a simple majority of creditors of DAVIDsTEA Inc. and of DAVIDsTEA (USA) Inc., voting separately, whose claims were affected by the Plan of Arrangement, representing in each case at least two-thirds in dollar value of all such claims duly filed in accordance with the CCAA proceedings.

The approved Plan of Arrangement required that DAVIDsTEA Inc. distribute an aggregate amount of $17.6 million to its creditors and those of DAVIDsTEA (USA) Inc. in full and final settlement of all claims affected by the Plan of Arrangement on June 18, 2021. On September 9, 2021, PwC, as Monitor, filed a Certificate of Termination with the Québec Superior Court and declared the CCAA proceedings were terminated without further act or formality. See "General Development of the Business – Fiscal 2020" and "General Development of the Business – Fiscal 2021" above.

Environmental and Social Policies

With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company's tea collection features more than 30% certified organic teas, and to its knowledge makes DAVIDsTEA the largest organic loose-leaf provider on the market. DAVIDsTEA carries responsibly-sourced and fairtrade certified blends. The Company is transitioning its tea packaging to compostable materials whenever possible, and when we can't find a solution that maintains the freshness and integrity of our tea, we stand by our commitment to recyclable packaging. Through collaborations with the Ethical Tea Partnership and Fair Trade Certified, the Company is able to protect and care for the tea community and the environments in which its tea is produced.

DAVIDsTEA has been a member of the Ethical Tea Partnership (ETP) since 2020. With the aim to drive forward long-term, systemic change across three thematic areas in tea (economics, equality and environment), the Ethical Tea Partnership's work improves the progress that is being made towards attaining the United Nation's Sustainable Development Goals in tea-growing regions.

DAVIDsTEA is transitioning its tea packaging to compostable materials whenever possible, and a solution can not be found that maintains the freshness and integrity of its tea, the Company stand by its commitment to recyclable packaging.

C.A.M.P. by DAVIDsTEA

On November 30, 2021, DAVIDsTEA announced its commitment to a more sustainable and ethical tea industry, with the launch of its new summer C.A.M.P by DAVIDsTEA x Ethical Tea Partnership project and on July 19, 2022, announced the official opening of the summer C.A.M.P. This project supports the tea-growing community in Zhejiang, China, one of the regions where DAVIDsTEA sources premium black and green tea bases for some of its top blends. C.A.M.P by DAVIDsTEA x Ethical Tea Partnership, which stands for "Child-friendly Areas for Meaningful Positivitea", provides safe education spaces for children whose parents have relocated for temporary jobs during the summer off-season. Launched in summer 2022, the program runs in the Zhejiang region of China and offers an extensive curriculum covering topics ranging from science to social skills and nutrition, in addition to providing courses for caretakers such as literacy, health and maternity protection.

Collaboration with Tea Horse

On June 9, 2022, DAVIDsTEA announced the launch of its new blend Manoomin Maple in partnership with fellow tea company Tea Horse, available at all 18 DAVIDsTEA flagship stores across Canada and online. In collaboration with Tea Horse, a woman-led, Indigenous-owned tea company, DAVIDsTEA added a new and unique tea to its collection called Manoomin Maple. Ten percent of all proceeds from the sale of Manoomin Maple go towards the David Suzuki Institute to support Indigenous communities through the Reconciling Ways of Knowing program. This Indigenous-led program facilitates conversations between Indigenous Peoples (and their governments) and Canadians (and their governments) to work together to include Indigenous voices and knowledge. As a non-Indigenous brand and company, it is important to DAVIDsTEA to share its tea love and amplify Indigenous voices and their businesses. Tea Horse's emphasis on respecting and preserving the wild nature of its ingredients aligns with DAVIDsTEA's core values: authenticity, sustainability, and positivity.

RISK FACTORS AND UNCERTAINTIES

You should carefully consider the risks and uncertainties described below together with all the other information contained in this AIF and in our other public disclosures. If any of the following risks occurs, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common shares could decline, and you could lose all or part of your investment in our shares. Although we believe that we have identified and discussed below the key risk factors and uncertainties affecting our business, there may be additional risks and uncertainties that are not currently known to us or that are currently deemed immaterial that may adversely affect our business and financial condition. These risk factors and uncertainties could cause actual results to differ materially from those expressed or implied in any of our forward-looking statements.

Risk Factor and Uncertainty Summary

Risks Related to Operational and Strategic Matters

- Our transition from a focus on sales through retail stores to online sales and sales through wholesale channels required that we expand and improve our operational delivery capabilities and has strained our operational, managerial and administrative resources, which may adversely affect our business.
- We may need to raise additional capital in the future. If we are unable to obtain adequate funding on terms acceptable to us, we may be unable to execute our business plan.
- Because our business is highly concentrated on a single, discretionary product category - tea, including loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts and accessories - we are vulnerable to changes in consumer preferences and in economic conditions affecting disposable income that could harm our financial results.
- Our success depends, in part, on our ability to continue to source, develop and market new varieties of teas and tea blends, tea-related gifts, accessories and food and beverages that meet our high standards and customer preferences.
- Our failure to accurately forecast consumer demand for our products while increasing inventory levels could adversely affect our gross margins, cash flow and liquidity.
- We may experience negative effects to our brand and reputation from real or perceived quality or safety issues with our tea, tea accessories and food and beverages, which could have an adverse effect on our operating results.
- Our business largely depends on a strong brand image, and if we are unable to maintain and enhance our brand image, particularly in new markets where we have limited brand recognition, we may be unable to increase or maintain our level of sales.
- If we are unable to attract, train, assimilate and retain employees that embody our culture, we may not be able to grow or successfully operate our business.

- Loss of key employees, an inability to attract and retain qualified employees or increased labour costs could adversely affect our results of operations and growth potential.
- Litigation may adversely affect our business, financial condition, results of operations or liquidity.

Risks Related to External and Economic Matters

- We face significant competition from other specialty tea and beverage retailers and retailers of grocery products, which could adversely affect our growth plans and our financial results.
- Because we rely on a limited number of third-party suppliers and manufacturers, we may not be able to obtain quality products on a timely basis or in sufficient quantities.
- A shortage in the supply, a decrease in the quality or an increase in the price of tea and ingredients used in our tea blends, because of weather conditions, earthquakes, pandemic, epidemic crop disease, pests or other natural or manmade causes could impose significant costs and losses on our business.
- Our ability to source our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, and beverage profitably or at all could be hurt if new trade restrictions are imposed, existing trade restrictions become more burdensome or environmental regulations become more stringent.
- Third-party failure to adequately receive, warehouse and ship our merchandise to our stores, wholesale and online customers could result in lost sales or reduced demand for our teas, tea accessories, and beverages.
- Fluctuations in economic conditions could materially impact our operating results.
- Geopolitical conditions, including trade disputes and direct or indirect acts of war or terrorism, could have an adverse effect on our operations, in particular our global supply chain, and adversely impact our financial results.
- Fluctuations in foreign currency exchange rates could harm our results of operations as well as the price of common shares.
- Fluctuations in our results of operations for the fourth fiscal quarter have a disproportionate effect on our overall financial condition and results of operations.

Risks Related to Regulatory, Data Privacy and Compliance Matters

- Our marketing programs, digital initiatives and use of consumer information are governed by an evolving set of laws. Enforcement trends and unfavorable changes in those laws or trends, or our failure to comply with existing or future laws, could substantially harm our business and results of operations.
- We are subject to customer payment-related risks that could increase operating costs or exposure to fraud or theft, subject us to potential liability and potentially disrupt our business.
- We rely significantly on information technology systems and any failure, inadequacy, interruption, or security failure of those systems could harm our ability to operate our business effectively.
- Data security breaches could negatively affect our reputation, credibility, and business.
- Use of social media may adversely affect our reputation or subject us to fines or other penalties.
- Our failure to comply with existing or new regulations, both in Canada and the United States, or an adverse action regarding product claims or advertising could have a material adverse effect on our results of operations and financial condition.
- We may not be able to protect our intellectual property adequately, which could harm the value of our brand and adversely affect our business.
- We rely on independent certification for a number of our products and our marketing of products marked “Organic”, “Fair Trade” and “Kosher”. Loss of certification within our supply chain or as relates to our manufacturing process or failure to comply with government regulations pertaining to the use of such marketing claims could harm our business.

Risks Related to Accounting and Tax Matters

- Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results from operations and financial condition.
- Our ability to use our net operating loss carryforwards in the United States may be subject to limitation in the event we experience an “ownership change”.
- Our transfer pricing policies are subject to audit, with respect to which an unfavorable outcome could take a disproportionate share of our management’s attention and negatively affect our financial condition.

Risks Relating to Ownership of Our Common Shares

- Our largest shareholder owns approximately 45.1% of our common shares, which may limit our minority shareholders' ability to influence corporate matters.
- Our stock price may be volatile or may decline.
- Our articles and bylaws contain provisions that may have the effect of delaying or preventing a change in control.
- Because we are a federally incorporated Canadian corporation and all of our directors and officers are resident in Canada, it may be difficult for investors in the United States to enforce civil liabilities against us based solely upon the federal securities laws of the United States.
- Shareholder activism, including public criticism of our company or our management team or litigation, may adversely affect our stock price.

Risks Related to Operational and Strategic Matters

Our transition from a focus on sales through retail stores to online sales and sales through wholesale channels required that we expand and improve our operational delivery capabilities and has strained our operational, managerial, and administrative resources, which may adversely affect our business.

Our current business strategy involves a transition to online sales and sales through wholesale channels of our high-quality tea and accessories, from our previous business model focused on sales through our retail stores. This transition has placed increased demands on our operational, managerial, administrative, and other resources, which may be inadequate to support the transition. Our senior management team may be unable to effectively address challenges involved with the transition from a focus on sales primarily through retail stores to a focus on online sales and sales through wholesale channels, given the substantial differences in those sales environments. We will also need to continue to enhance our operational management systems, financial and management controls, and information systems, and to hire, train and retain qualified and capable personnel. Implementing or enhancing our infrastructure, management systems, information systems, controls, and procedures, particularly as they relate to online sales, and any changes to our existing operational, managerial, administrative and other resources could negatively affect our results of operations and financial condition.

We may need to raise additional capital in the future. If we are unable to obtain adequate funding on terms acceptable to us, we may be unable to execute our business plan.

To remain competitive, we must continue to make investments in the development of our products, the expansion of our online presence, our management information systems, and our sales and marketing activities. If cash generated from operations is insufficient to fund such growth, we could be required to raise additional funds. There can be no assurance that any funding or sources of financing will be available to us, or if available, on terms favorable to us. If we cannot raise the required capital when needed, we may not be able to satisfy the demands of existing and prospective customers, we could lose revenue and market share and we may have to curtail our capital expenditures.

Because our business is highly concentrated on a single, discretionary product category - tea, including loose-leaf teas, pre-packaged teas, tea sachets, and tea-related gifts and accessories - we are vulnerable to changes in consumer preferences and in economic conditions affecting disposable income that could harm our financial results.

Our business is not diversified and consists primarily of developing, sourcing, marketing, and selling loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, and craft beverages. Consumers' preferences change rapidly and without warning, moving from one trend to another among many retail concepts. Therefore, our business is substantially dependent on our ability to educate consumers on the many positive attributes of tea and anticipate shifts in consumers' tastes. Any future shifts in consumer preferences away from the consumption of beverages brewed from premium loose-leaf teas would also have a material adverse effect on our results of operations. For example, there has been an increasing focus on health and wellness, which we believe has increased demand for products, such as our teas, that are perceived to be healthier than other beverage alternatives. If such consumer preference trends change, or if our teas are not perceived to be healthier than other beverage alternatives, our financial results could be adversely affected.

Consumer purchases of specialty retail products, including our products, are discretionary in nature and are historically affected by economic conditions such as changes in employment, salary and wage levels, and confidence in prevailing and future economic conditions as may be affected by geopolitical issues, such as the Russian invasion of Ukraine, trade restrictions, unseasonable weather, pandemics, including the COVID-19 pandemic, as well as the transition to selling our products primarily online and other factors that are outside of our control. Discretionary purchases may decline during recessionary periods or at other times when disposable income is lower, such as during highly inflationary periods. Further, due to the COVID-19 pandemic and our permanent store closings, our financial performance has become more susceptible to fluctuations in online consumer spending, as the consumer is limited to purchasing our products through the online store and a selection of products through grocery stores and pharmacies. We have seen significant decreases in consumer spending due to factors such as the pandemic, rising inflation rates and geopolitical conflict, particularly in our industry, and such trends may continue. If periods of decreased consumer spending persist, our sales could decrease, and our financial condition and results of operations could be adversely affected.

Our success depends, in part, on our ability to continue to source, develop and market new varieties of teas and tea blends, tea-related gifts, accessories, and food and beverages that meet our high standards and customer preferences.

We currently offer approximately 150 varieties of teas and tea blends and a wide assortment of tea-related gifts, accessories and food and beverages. Our success depends in part on our ability to continually innovate, develop, source and market new varieties of loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, and food and beverages that both meet our standards for quality and appeal to customers' preferences. We have conducted extensive customer market research to target our efforts, however, failure to innovate, develop, source and market new varieties of loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, and food and beverages that consumers want to buy could lead to a decrease in our sales and profitability.

Our failure to accurately forecast consumer demand for our products while increasing inventory levels could adversely affect our gross margins, cash flow and liquidity.

As our sales mix pivots towards tea related products and away from the sale of hard goods and accessories, we are increasing inventory levels of our tea products, which are perishable. In the event we are unable to adequately manage our inventory levels, we may be forced to either write off or sell expiring excess inventory at a discount, which could affect our financial performance. Further, if our strategy of focusing on tea rather than hard goods and accessories does not suit customer preferences, we could have a large volume of obsolete inventory that we may be required to write off or discount, which would negatively affect our gross margins and operating results. If our inventory and our forecasts exceed demand, our liquidity and cash flow may be adversely affected.

We may experience negative effects to our brand and reputation from real or perceived quality or safety issues with our tea, tea accessories, and food and beverages, which could have an adverse effect on our operating results.

We believe our customers rely on us to provide them with high-quality teas, tea accessories, and food and beverages. Concerns regarding the safety of our teas, tea accessories, and food and beverages or the safety and quality of our supply chain could cause consumers to avoid purchasing certain products from us or to seek alternative sources of tea, tea accessories, and food and beverages, even if the basis for the concern has been addressed or is outside of our control. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving teas, tea accessories, and food and beverages sold at our brick-and-mortar stores, could discourage consumers from buying our teas, tea accessories, and food and beverages and have an adverse effect on our brand, reputation and operating results.

Furthermore, the sale of teas, tea accessories, and food and beverages entails a risk of product liability claims and the resulting negative publicity. For example, tea supplied to us could contain contaminants that, if not detected by us, could result in illness or death upon their consumption. Similarly, tea accessories, and food and beverages could contain contaminants or contain design or manufacturing defects that could result in illness, injury or death. It is possible that product liability claims will be asserted against us in the future.

We may also be subject to involuntary product recalls or may voluntarily conduct a product recall. The costs associated with any future product recall could, individually and in the aggregate, be significant in any given fiscal year. In addition, any product recall, regardless of direct costs of the recall, may harm consumer perceptions of our teas, tea accessories, and food and beverages and have a negative impact on our future sales and results of operations.

Any loss of confidence on the part of our customers in the safety and quality of our teas, tea accessories, and food and beverages would be difficult and costly to overcome. Any such adverse effect could be exacerbated by our position in the market as a purveyor of quality teas, tea accessories, and food and beverages and could significantly reduce our brand value. Issues regarding the safety of any teas, tea accessories, and food and beverages sold by us, regardless of the cause, could have a substantial and adverse effect on our sales and operating results.

Our business largely depends on a strong brand image, and if we are unable to maintain and enhance our brand image, particularly in new markets where we have limited brand recognition, we may be unable to increase or maintain our level of sales.

We believe that our brand image and brand awareness are important to our business and potential future growth. We also believe that maintaining and enhancing our brand image is important to maintaining and expanding our customer base and retaining our employees. Our ability to successfully integrate our strategy to expand into new channels or to maintain the strength and distinctiveness of our brand in our existing markets will be adversely impacted if we fail to connect with our target customers.

Maintaining and enhancing our brand image may require us to continue to make substantial investments in areas such as merchandising, marketing, retail and online store operations, wholesale operations, and employee training, which could adversely affect our cash flow, and which may ultimately be unsuccessful. Furthermore, our brand image could be jeopardized if we fail to maintain high standards for merchandise quality and delivery to our online and wholesale customers, if we fail to comply with local laws and regulations, if we experience negative publicity or other negative events that affect our image and reputation, or because of communications by our shareholders. Some of these risks may be beyond our ability to control, such as the effects of negative publicity regarding our suppliers or our shareholders. Failure to successfully market and maintain our brand image could harm our business, results of operations and financial condition.

If we are unable to attract, train, assimilate and retain employees that embody our culture, we may not be able to grow or successfully operate our business.

Our success is partly due to our ability to attract, train, assimilate and retain enough employees, who understand and appreciate our culture, represent our brand effectively and establish credibility with our customers. Due to the changes caused by the COVID-19 pandemic including remote work and the shift in our business model toward online sales, maintaining our culture and training and assimilating employees has proven more difficult and there can be no assurance that we can maintain our culture and the effective representation of our brand going forward. If we are unable to hire and retain store and other personnel capable of consistently providing a high-level of customer service, as demonstrated by their enthusiasm for our culture, understanding of our customers and knowledge of the loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, and food and beverages we offer, the performance of our existing stores, online experience and other aspects of our business could be materially adversely affected and our brand image may be negatively impacted. In addition, the rate of employee turnover in the retail industry is typically high and finding qualified candidates to fill positions may be difficult. Any failure to meet our staffing needs, including for IT professionals or warehouse and distribution facility employees, or any material increases in team member turnover rates could have a material adverse effect on our business or results of operations. We also rely on temporary or seasonal personnel to staff our stores and distribution centres. We may not be able to find adequate temporary or seasonal personnel to staff our operations when needed, which may strain our existing personnel and negatively affect our operations.

Loss of key employees, an inability to attract and retain qualified employees or increased labour costs could adversely affect our results of operations and growth potential.

Our success will depend in part upon our leadership team and other key management personnel. The loss of any key member of management may prevent the Company from implementing its business plans in a timely manner. Further, labour is a significant component of the cost of operating our business. Our ability to meet labour needs while controlling labour costs is subject to external factors, such as employment levels, prevailing wage rates, minimum wage legislation, changing demographics, health and other insurance costs and governmental labour and employment requirements. Our transition to online sales and sales through wholesale channels from our previous model focused on retail stores has led to an increased need for employees with IT expertise. Our ability to identify and retain qualified IT personnel has been difficult in light of the increased demand for such talent. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, while increasing our wages could cause our earnings to decrease. Due to current factors including low unemployment rates we have had difficulty attracting and retaining qualified personnel to staff our warehouse and production facilities. If we face labour shortages or increased labour costs because of increased competition for employees from our competitors and other industries, higher employee-turnover rates, increases in provincial minimum wages, change in exempt and non-exempt status, or other employee benefits costs, including costs associated with health insurance coverage or workers' compensation insurance, our operating expenses could increase and our business, financial condition and results of operations could be materially and adversely affected.

Litigation may adversely affect our business, financial condition, results of operations or liquidity.

Our business is subject to the risk of litigation by employees, consumers, vendors, competitors, intellectual property rights holders, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions, or other litigation. The outcome of litigation, particularly class action lawsuits, regulatory actions, and intellectual property claims, is inherently difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. Regardless of the outcome or merit, the cost to defend future litigation may be significant and result in the diversion of management and other company resources. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, results of operations or liquidity.

Risks Related to External and Economic Matters

We face significant competition from other specialty tea and beverage retailers and retailers of grocery products, which could adversely affect our growth plans and our business.

The Canadian and U.S. tea markets are relatively fragmented. We compete directly with many small independently owned tea retailers and several regional tea retailers, as well as retailers of grocery products, including loose-leaf teas, tea sachets and other beverages. We must spend considerable resources to differentiate our customer and product experience. Some of our competitors may have greater financial, marketing, and operating resources than we do. Therefore, despite our efforts, our competitors may be more successful than us in attracting customers.

Because we rely on a limited number of third-party suppliers and manufacturers, we may not be able to obtain quality products on a timely basis or in sufficient quantities.

We rely on a limited number of decentralized vendors to supply us with straight tea, specialty blended teas and tea-related hardware and accessories on a continuous basis. Our financial performance depends in large part on our ability to purchase tea and tea accessories in sufficient quantities at competitive prices from these vendors. In general, we do not have long-term purchase contracts or other contractual assurances of continued supply, pricing, or exclusive access to products from these vendors. For example, a significant portion of our tea and tea-related hardware is sourced from Germany and China, respectively. The Russian invasion of Ukraine has had ripple effects globally, including energy supply disruptions to Germany and port closures in China, which may negatively impact our critical supply of products from those regions.

Any of our suppliers or manufacturers could discontinue supplying us with teas in sufficient quantities for a variety of reasons. The benefits we currently experience from our supplier and manufacturer relationships could be adversely affected if they:

- raise the prices they charge us;
- change payment terms;
- discontinue selling products to us;
- sell similar or identical products to our competitors; or
- enter into arrangements with competitors that could impair our ability to sell our suppliers' and manufacturers' products, including by giving our competitors exclusive licensing arrangements or exclusive access to tea blends or limiting our access to such arrangements or blends.

Events that adversely affect our vendors could impair our ability to obtain inventory in the quantities and at the quality that we desire. Such events include difficulties or problems with our vendors' businesses, finances, labour relations, ability to import raw materials, costs, production, insurance, and reputation, as well as natural disasters or other catastrophic occurrences, such as the COVID-19 pandemic and the Russian invasion of Ukraine.

More generally, if we experience significant increased demand for our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, or food and beverages, or need to replace an existing vendor, additional supplies or additional manufacturing capacity may not be available when required on terms that are acceptable to us, or at all, and that any new vendor may not allocate sufficient capacity to us in order to meet our requirements, fill our orders in a timely manner or meet our strict quality requirements. In the event we are required to find new sources of supply, we may encounter delays in production, inconsistencies in quality and added costs because of the time it takes to train our suppliers and manufacturers in our methods, products, and quality control standards. In particular, the loss of a tea vendor would necessitate that we work with our new vendors to replicate our tea blends, which could result in our inability to sell such tea blends for a period of time or in a change of quality in our tea blends. Any delays, interruption, or increased costs in the supply of loose-leaf teas or the manufacture of our pre-packaged teas, tea sachets and tea-related gifts, and accessories could have an adverse effect on our ability to meet customer demand for our products and result in lower sales and profitability both in the short and long term.

A shortage in the supply, a decrease in the quality or an increase in the price of tea and ingredients used in our tea blends, because of weather conditions, earthquakes, pandemic, epidemic crop disease, pests or other natural or manmade causes could impose significant costs and losses on our business.

The supply and price of tea and ingredients used in our tea blends are subject to fluctuation, depending on demand and other factors outside of our control. The supply, quality and price of our teas and other ingredients can be affected by multiple factors in countries that produce tea or other ingredients, including political and economic conditions, civil and labour unrest, pandemic, epidemic and adverse weather conditions such as floods, drought and temperature extremes, earthquakes, tsunamis, and other natural disasters and related occurrences. This risk is particularly true with respect to regions or countries from which we source a significant percentage of our products. In extreme cases, entire tea harvests may be lost or may be negatively impacted in some geographic areas. These factors can increase costs and decrease sales, which may have a material adverse effect on our business, results of operations and financial condition.

Tea and other ingredients may be vulnerable to crop disease and pests, which may vary in severity and effect. The costs to control disease and pest damage vary depending on the severity of the damage and the extent of the plantings affected. Moreover, available technologies to control such conditions may not continue to be effective. These conditions can increase costs and decrease sales, which may have a material adverse effect on our business, results of operations and financial condition.

Our ability to source our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, and beverages profitably or at all could be hurt if new trade restrictions are imposed, existing trade restrictions become more burdensome or environmental regulations become more stringent.

All our teas and ingredients used in our blends are currently grown, and a substantial majority of our pre-packaged teas, tea sachets and tea-related gifts, and accessories are currently manufactured outside of Canada and the United States. Canada, the United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, environmental regulations or other restrictions or regulations, or may adversely adjust prevailing quota, duty, or tariff levels. Countries impose, modify, and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions that make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards, and customs restrictions, could increase the cost or reduce the supply of teas, and tea accessories available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition, and results of operations.

In addition, there is a risk that our suppliers and manufacturers could fail to comply with applicable regulations, which could lead to investigations by Canadian, American or foreign government agencies responsible for international trade compliance. Resulting penalties or enforcement actions could delay future imports or exports or otherwise negatively affect our business.

Third-party failure to adequately receive, warehouse and ship our merchandise to our stores, wholesale and online customers could result in lost sales or reduced demand for our teas, tea accessories, and beverages.

We currently rely upon third-party warehouse facilities for most of our product receipts from vendors and shipments to our stores and our wholesale and online customers. Our utilization of third-party warehouse services for our merchandise is subject to risks, including employee strikes, information technology systems failure, and their implementation of appropriate measures to ensure the safety of their employees due to COVID-19. If we change warehousing companies, we could face logistical difficulties that could adversely affect our receipts and delivery of merchandise and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those we receive from our current third-party transportation providers in Canada and the United States that we currently use, which in turn would increase our costs and thereby adversely affect our operating results.

In addition, we currently rely upon third-party transportation providers for all our product shipments from our distribution centres to our stores, wholesale, and online customers. Our utilization of third-party delivery services for our shipments is subject to risk, including increases in fuel prices, which would increase our shipping costs, unexpected limitations on expected activities, employee strikes and inclement weather, which may affect third parties' abilities to provide delivery services that adequately meet our shipping needs. Our operations may be further materially adversely affected by the temporary closure of our suppliers or third-party delivery services, restrictions on the shipment of our products, and travel restrictions that may be requested or mandated by public authorities.

If we change shipping companies, we could face logistical difficulties that could adversely affect deliveries, and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those we receive from the third-party transportation providers in Canada and the United States that we currently use, which in turn would increase our costs and thereby adversely affect our operating results.

Fluctuations in economic conditions could materially impact our operating results.

Our operating results could be materially impacted by changes in overall economic conditions and other economic factors that impact consumer confidence and spending, including discretionary spending. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, overall economic slowdown or recession, changes in housing market conditions, changes in government benefits, the availability of credit, interest rates, inflation or deflation, tax rates and other matters could reduce consumer spending. Given the inflation rates in Fiscal 2022, there have been and may continue to be increases to our cost of goods, supply chain costs and labour costs. In addition, any other economic factors or circumstances resulting in higher transportation, labor, insurance or healthcare costs or commodity prices could increase our merchandise costs and operating, general and administrative expenses and otherwise adversely affect our financial condition, results of operations or cash flows. Increased fuel prices also have an effect on consumer spending and on our costs of producing and procuring products that we sell. A deterioration in overall economic conditions, the likelihood of which is made more uncertain by recent increases in the inflation rate, could adversely affect our business in many ways, including slowing sales growth, reducing overall sales and reducing gross margins. We are unable to predict how the global economy and financial markets will perform. If the global economy and financial markets do not perform as we expect, it could adversely affect our financial condition, results of operations or cash flows.

Geopolitical conditions, including trade disputes and direct or indirect acts of war or terrorism, could have an adverse effect on our operations, in particular our global supply chain, and adversely impact our financial results.

In February 2022, Russia initiated significant military action against Ukraine. In response, Canada, the United States and certain other countries imposed significant sanctions and export controls against Russia, Belarus and certain individuals and entities connected to Russian or Belarusian political, business, and financial organizations. Consequences resulting from the conflict, including related geopolitical tensions, regional instability, and geopolitical shifts which could materially adversely affect regional economies and the global economy. Such consequences could increase our costs, reduce our sales and earnings, impair our ability to raise additional capital when needed on acceptable terms, if at all, or otherwise adversely affect our business, financial condition, and results of operations.

Further, disruption in our global supply chain could negatively affect our business. The products we sell are sourced from a limited number of suppliers including suppliers in Germany and China, which regions have been significantly impacted by the Russian invasion of Ukraine. Any future disruption in our supply chain or inability to find qualified suppliers and access products that meet requisite quality standards in a timely and efficient manner could adversely affect our business. The loss or disruption of such supply arrangements for any reason could interrupt product supply and, if not effectively managed and remedied, have an adverse effect on our business, financial condition, results of operations or cash flows.

Fluctuations in foreign currency exchange rates could harm our results of operations as well as the price of common shares.

The reporting currency for our consolidated financial statements is the Canadian dollar. Changes in exchange rates between the Canadian dollar and the U.S. dollar may have a significant, and potentially adverse, effect on our results of operations. Because we recognize sales in the United States in U.S. dollars, if the U.S. dollar weakens against the Canadian dollar, it would have a negative impact on our U.S. operating results upon translation of those results into Canadian dollars for the purposes of consolidation. Any hypothetical reduction in sales could be partially or completely offset by lower cost of sales. In addition, most of the purchases we make from our suppliers are denominated in U.S. dollars. As a result, a depreciation of the Canadian dollar against the U.S. dollar increases the cost of acquiring those supplies in Canadian dollars, which negatively affects our gross profit margin.

Our earnings per share are reported in Canadian dollars, and accordingly may be translated into U.S. dollars by analysts or our investors. Given the foregoing, the value of an investment in our common shares to a U.S. shareholder will fluctuate as the U.S. dollar rises and falls against the Canadian dollar. Our decision to declare a dividend depends on results of operations reported in Canadian dollars, and we will declare dividends, if any, in Canadian dollars. As a result, U.S. and other shareholders seeking U.S. dollar total returns are subject to foreign exchange risk as the U.S. dollar rises and falls against the Canadian dollar.

Fluctuations in our results of operations for the fourth fiscal quarter have a disproportionate effect on our overall financial condition and results of operations.

Our business is seasonal and, historically, we have realized a higher portion of our sales, earnings, and cash flow from operations in the fourth fiscal quarter, due to the impact of the holiday selling season. Any factors that harm our fourth fiscal quarter operating results, including disruptions in our supply chain, ability of our supply chain to handle higher volumes, adverse weather, unfavorable economic conditions or lesser than anticipated sales of our holiday-specific product assortment, could have a disproportionate effect on our results of operations for the entire fiscal year.

To prepare for our peak shopping season, we must order and maintain higher quantities of inventory than we would carry at other times of the year. As a result, our working capital requirements also fluctuate during the year, increasing in the second and third fiscal quarters in anticipation of the fourth fiscal quarter. Any unanticipated decline in demand for our loose-leaf teas, pre-packaged teas, tea sachets, tea-related gifts, and accessories during our peak shopping season could require us to sell excess inventory at a substantial markdown, which could diminish our brand and reduce our sales and gross profit.

Our quarterly results of operations may also fluctuate significantly because of a variety of other factors, including the seasonality of our business. As a result, historical period-to-period comparisons of our sales and operating results are not necessarily indicative of future period-to-period results. You should not rely on the results of a single fiscal quarter, particularly the fourth fiscal quarter holiday season, as an indication of our annual results or our future performance.

Risks Related to Regulatory, Privacy and Compliance Matters

Our marketing programs, digital initiatives and use of consumer information are governed by an evolving set of laws. Enforcement trends and unfavorable changes in those laws or trends, or our failure to comply with existing or future laws, could substantially harm our business and results of operations.

We collect, maintain and use data, including personally identifiable information, provided to us through online activities, other customer interactions in our business, and our employees and service providers. Our business and current and future marketing programs depend on our ability to collect, maintain, use, and otherwise process this data, and our ability to do so is subject to evolving international and Canadian and U.S. federal, provincial and/or state laws, regulations, and enforcement trends with respect to the foregoing. We strive to comply with all applicable laws, regulations and other legal obligations relating to privacy, data protection, information security and consumer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, may conflict with other laws, regulations, and legal obligations, or may conflict with our practices. If so, we may suffer damage to our reputation and be subject to public scrutiny, proceedings, or actions against us by governmental entities or others, which could hurt our reputation, force us to spend significant amounts to defend our practices, distract our management, increase our costs of doing business and result in monetary liability, and we could be required to change our practices.

Because the interpretation and application of many laws and regulations relating to privacy, data protection, information security, and consumer protection, along with industry standards, are uncertain, it is possible that relevant laws, regulations, or standards may be interpreted and applied in manners that are, or are alleged to be, inconsistent with our practices. In addition, as privacy, data protection, information security and consumer protection laws and regulations change, we may incur additional costs to ensure we remain in compliance. For example, we have online sales to Californians, which subject us to the California Consumer Privacy Act ("CCPA"), the standards and restrictions of which are in certain cases more stringent than other U.S. privacy laws. Additionally, the California Privacy Rights Act ("CPRA") was approved by California voters in the November 2020 election. The CPRA significantly modifies the CCPA, creating obligations relating to consumer data beginning on January 1, 2022, with enforcement beginning July 1, 2023. More generally, some observers have noted the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States, as observed with the recent Virginia Consumer Data Protection Act, enacted in March 2021 and which took effect in January 2023, the Colorado Privacy Act, enacted in June 2021 and which takes effect in July 2023, and the Utah Privacy Act, enacted in March 2022 and which takes effect December 2023. These new state laws could increase our potential liability and adversely affect our business.

Complying with the CCPA, CPRA and other privacy, data protection, information security and consumer protection laws and regulations may cause us to incur substantial operational costs or require us to modify our practices. If applicable privacy, data protection, information security and consumer protection laws and regulations evolve or become more restrictive, our compliance costs may increase, our ability to effectively engage customers via personalized marketing may decrease, our investment in our e-commerce platform may not be fully realized, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase. Any failure, or perceived failure, by us to comply with international, federal, provincial and/or state laws and regulations relating to privacy, data protection, information security and consumer protection, or self-regulatory standards that apply to us or that third parties assert are applicable to us, our policies or notices we post or make available, or other actual or asserted obligations relating to privacy, data protection, information security and data protection could subject us to claims, investigations, sanctions, enforcement actions and other proceedings, disgorgement of profits, fines, damages, civil and criminal liability, penalties or injunctions.

We are subject to customer payment-related risks that could increase operating costs or exposure to fraud or theft, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including credit cards, debit cards and gift cards. Acceptance of these payment options subjects us to rules, regulations, contractual obligations, and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. As a result, our business and operating results could be adversely affected.

We rely significantly on information technology systems and any failure, inadequacy, interruption, or security failure of those systems could harm our ability to operate our business effectively.

We rely on complex information technology systems to effectively manage our business data, communications, point-of-sale, supply chain, order entry and fulfillment, inventory and warehouse and distribution centres and other business processes, which technology systems are vital to our continuing operations. The failure of our systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales, causing our business to suffer. Despite any precautions we may take, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, power outages, viruses, security breaches, cyber-attacks, and terrorism, including breaches of our transaction processing or other systems that could result in the compromise of confidential company, customer, or employee data. We maintain disaster recovery procedures, but there is no guarantee that these will be adequate in all circumstances. Any such damage or interruption could have a material adverse effect on our business, cause us to face significant fines, customer notice obligations or costly litigation, harm our reputation with our customers, require us to expend significant time and expense developing, maintaining or upgrading our information technology systems or prevent us from paying our vendors or employees, receiving payments from our customers or performing other information technology, administrative or outsourcing services on a timely basis. Furthermore, our ability to conduct our website operations may be affected by changes in foreign, federal, provincial and state privacy laws and we could incur significant costs in complying with the multitude of foreign, federal, provincial and state laws regarding the unauthorized disclosure of personal information. Although we carry business interruption and cyber-security insurance, our coverage may not be sufficient to compensate us for potentially significant losses in connection with the risks described above.

In addition, we are dependent on third-party hardware and software providers, including our website. We sell merchandise over the Internet through our website, which represents a growing percentage of our overall net sales. The successful operation of our e-commerce business depends on our ability to maintain the efficient and continuous operation of our website and our fulfillment operations, and to provide a shopping experience that will generate orders and return visits to our site. Our e-commerce operations are subject to numerous risks, including rapid technology change, unanticipated operating problems, credit card fraud and system failures or security breaches and the costs to address and remedy such failures or breaches. Additionally, our website operations as well as other information systems, may be affected by our reliance on third-party hardware and software providers, whose products and services are not within our control, making it more difficult for us to correct any defects; technology changes; risks related to the failure of computer systems through which we conduct our website operations; telecommunications failures; security breaches or attempts thereof; and similar disruptions. Third-party hardware and software providers may not continue to make their products available to us on acceptable terms or at all and such providers may not maintain policies and practices regarding data privacy and security in compliance with all applicable laws. Any impairment in our relationships with such providers could have an adverse effect on our business.

Data security breaches could negatively affect our reputation, credibility, and business.

We collect and store personal information relating to our customers and employees, including their personally identifiable information, and we rely on third parties for the operation of our e-commerce site and for the various social media tools and websites we use as part of our marketing strategy. Consumers are increasingly concerned over the security of personal information transmitted over the Internet (or through other mechanisms), consumer identity theft and user privacy. Any perceived, attempted or actual unauthorized disclosure of personally identifiable information regarding our employees, customers or website visitors could harm our reputation and credibility, reduce our e-commerce sales, impair our ability to attract website visitors, reduce our ability to attract and retain customers and result in litigation against us or the imposition of significant fines or penalties and could require us to expend significant time and expense developing, maintaining or upgrading our information technology systems or prevent us from paying our vendors or employees, receiving payments from our customers or performing other information. We cannot be certain that any of our third-party service providers with access to such personally identifiable information will maintain policies and practices regarding data privacy and security in compliance with all applicable laws, or that they will not experience data security breaches or attempts thereof which could have a corresponding adverse effect on our business.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal, provincial, and state laws and legislative proposals addressing data privacy and security, as well as increased data protection obligations imposed on merchants by credit card issuers. As a result, we may become subject to more extensive requirements to protect the customer information that we process in connection with the purchase of our products, resulting in increased compliance costs. Furthermore, the risk of cyberattacks and security breaches and incidents is anticipated to increase as a result of the Russian invasion of Ukraine and the resulting geopolitical unrest. Any breach of our or our third-party service providers' websites or computer systems could adversely affect our business, credibility and reputation and lead to remediation or litigation-related expenses, which could have a materially adverse effect on our results of operations.

Use of social media may adversely affect our reputation or subject us to fines or other penalties.

Use of social media platforms, user review and recommendation websites and other forms of online communications provides individuals with access to a broad audience of consumers and other interested persons. As laws and regulations rapidly evolve to govern the use of these social media platforms, especially with respect to advertising and consumer privacy, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these social media platforms could adversely affect our reputation or subject us to fines or other penalties.

Consumers value readily available information concerning retailers and their goods and services and often act on such information without further investigation and without regard to its accuracy. Information concerning us may be posted online by unaffiliated third parties, whether seeking to pass themselves off as us or not, at any time, which may be adverse to our reputation or business. The harm may be immediate without affording us an opportunity for redress or correction.

Our failure to comply with existing or new regulations, both in Canada and the United States, or an adverse action regarding product claims or advertising could have a material adverse effect on our results of operations and financial condition.

Our business operations, including labeling, advertising, sourcing, distribution, and sale of our products, are subject to regulation by various federal, state and local government entities and agencies, including the CFIA in Canada and the FDA, the FTC and the Office of Foreign Asset Control in the United States. From time to time, we may be subject to challenges to our marketing, advertising, or product claims in litigation or governmental, administrative, or other regulatory proceedings. Failure to comply with applicable regulations or withstand such challenges could result in changes in our supply chain, product labeling, packaging, or advertising, loss of market acceptance of the product by consumers, additional recordkeeping requirements, injunctions, product withdrawals, recalls, product seizures, fines, monetary settlements, or criminal prosecution. Any of these actions could have a material adverse effect on our results of operations and financial condition.

In addition, consumers who allege that they were deceived by any statements that were made in advertising or labeling could bring a lawsuit against us under consumer protection laws. If we were subject to any such claims, while we would defend ourselves against such claims, we may ultimately be unsuccessful in our defense. Defending ourselves against such claims, regardless of their merit and ultimate outcome, would likely result in a significant distraction for management, be lengthy and costly and could adversely affect our results of operations and financial condition. In addition, the negative publicity surrounding any such claims could harm our reputation and brand image.

We may not be able to protect our intellectual property adequately, which could harm the value of our brand and adversely affect our business.

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. We pursue the registration of our domain names, trademarks, service marks and patentable technology in Canada, the United States and in certain other jurisdictions. Our trademarks, including our registered DAVIDsTEA® and DAVIDsTEA logo design trademarks and the unregistered names of a significant number of the varieties of specially blended teas that we sell, are valuable assets that reinforce the distinctiveness of our brand and our customers' favorable perception of our stores.

We also strive to protect our intellectual property rights by relying on federal, state, and common law rights, as well as contractual restrictions with our employees, contractors (including those who develop, source, manufacture, store and distribute our tea blends, tea accessories and other tea-related merchandise), vendors and other third parties. However, we may not enter into confidentiality and/or invention assignment agreements with every employee, contractor and service provider to protect our proprietary information and intellectual property ownership rights. In addition, although we have exclusivity agreements with each of our significant suppliers who performs blending services for us, or who has access to our designs, we may not be able to successfully protect the tea blends and designs to which such suppliers have access under trade secret laws, and the periods for exclusivity governing our tea blends last for periods as brief as 18 months. Unauthorized disclosure of or claims to our intellectual property or confidential information may adversely affect our business.

From time to time, third parties have sold our products using our name without our consent, and, we believe, have infringed, or misappropriated our intellectual property rights. We respond to these actions on a case-by-case basis and where appropriate may commence litigation to protect our intellectual property rights. However, we may not be able to detect unauthorized use of our intellectual property or to take appropriate steps to enforce, defend and assert our intellectual property in all instances.

Effective trade secret, patent, copyright, trademark and domain name protection is expensive to obtain, develop and maintain. Our failure to register or protect our trademarks could prevent us in the future from using our trademarks or challenging third parties who use names and logos similar to our trademarks, which may in turn cause customer confusion, impede our marketing efforts, negatively affect customers' perception of our brand, stores and products, and adversely affect our sales and profitability. Moreover, intellectual property proceedings and infringement claims brought by or against us could result in substantial costs and a significant distraction for management and have a negative impact on our business. We cannot make any assurance that we are not infringing or violating, and have not infringed or violated, any third-party intellectual property rights, or that we will not be accused of doing so in the future.

In addition, although we have also taken steps to protect our intellectual property rights internationally, the laws of certain foreign countries may not protect intellectual property to the same extent as do the laws of Canada and the United States and mechanisms for enforcement of intellectual property rights may be inadequate in those countries. Other entities may have rights to trademarks that contain portions of our marks or may have registered similar or competing marks in foreign countries. There may also be other prior registrations in other foreign countries of which we are not aware. We may need to expend additional resources to defend our trademarks in these countries, and the inability to defend such trademarks could impair our brand or adversely affect the growth of our business internationally.

We rely on independent certification for a number of our products and our marketing of products marked "Organic", "Fair Trade" and "Kosher". Loss of certification within our supply chain or as relates to our manufacturing process or failure to comply with government regulations pertaining to the use of such marketing claims could harm our business.

We rely on independent certification, such as "Organic", "Fair Trade" or "Kosher" to differentiate some of our products from others. We offer one of the largest certified organic collections of tea in North America amongst branded tea retailers. We must comply with the requirements of independent organizations or certification authorities to label our products as certified. The loss of any independent certifications could adversely affect our marketplace position, which could harm our business.

In addition, the CFIA and the U.S. Department of Agriculture require that our certified organic products meet certain consistent, uniform standards. Compliance with such regulations could pose a significant burden on some of our suppliers, which could cause a disruption in some of our product offerings. Moreover, in the event of actual or alleged non-compliance, we might be forced to find an alternative supplier, which could adversely affect our business, results of operations and financial condition.

Risks Related to Accounting and Tax Matters

Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results from operations and financial condition.

We are subject to taxes by Canadian federal, provincial and local tax authorities as well as U.S. federal and state tax authorities and our tax liabilities will be affected by the allocation of profits and expenses to differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by several factors, including:

- changes in the valuation of our deferred tax assets and liabilities, including as a result of the tax reform bill in the United States known as the Tax Cuts and JOBS Act;
- changes in tax laws, regulations, or interpretations thereof; or
- future earnings being lower than anticipated in jurisdictions where we have lower statutory tax rates and higher than anticipated earnings in jurisdictions where we have higher statutory tax rates.

We may be subject to audits of our income, sales, and other transaction taxes by these tax authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

Our ability to use our net operating loss carryforwards in the United States may be subject to limitation in the event we experience an "ownership change."

Under Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize net operating loss carryforwards in any taxable year may be limited if we experience an "ownership change." A Section 382 "ownership change" generally occurs if one or more shareholders or groups of shareholders who own at least 5% of our common shares increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Any such limitation on the timing of utilizing our net operating loss carryforwards would increase the use of cash to settle our tax obligations. Accordingly, the application of Section 382 could have a material effect on the use of our net operating loss carryforwards, which could adversely affect our future cash flow from operations.

Our transfer pricing policies are subject to audit, an unfavorable outcome to which could take a disproportionate share of our management's attention and negatively affect our financial condition.

We and our subsidiary engage in a number of intercompany transactions in various jurisdictions. Such activity subjects us to complex transfer pricing regulations in the countries in which we operate. There is a relatively high degree of uncertainty and inherent subjectivity in complying with these regulations. Tax examinations similarly are often complex, and tax authorities may disagree with the treatment of items reported by us and our transfer pricing methodology.

We believe that these transactions reflect the accurate economic allocation of profit and risk; however, the ultimate outcome of any examination with respect to amounts owed by us may differ from the amounts recorded in our financial statements and might also include penalties and interest. A recent CRA transfer pricing audit conducted prior to the Company's formal restructuring process indicated a difference in the interpretation of the economics of our intercompany transactions. Although we believe that as a result of the formal restructuring process that the CRA will not be able to impose cash penalties, they may still have the authority to require us to decrease our available net operating loss carryforwards. Appealing an unfavorable outcome could require significant attention of senior management to the detriment of other aspects of our business. As well, the difference between what we have reserved and what the CRA may find we owe may materially affect our financial position and financial results in the period or periods for which such determination is made.

Risks Relating to Ownership of Our Common Shares

Our largest shareholder owns approximately 45.1% of our common shares, which may limit our minority shareholders' ability to influence corporate matters.

Our largest shareholder, Rainy Day Investments, Ltd. ("Rainy Day"), is a corporation controlled by Herschel Segal. Mr. Segal is Strategic Advisor of the Company, former Chairman of the Board and spouse of Jane Silverstone Segal, Chair of the Board. Mr. Segal owns or controls an aggregate of 12,014,061 shares, of which 12,012,538 of shares are held by Rainy Day. The shares held by Rainy Day represent approximately 45.1% of our common shares. Rainy Day may have the ability to influence the outcome of any corporate transaction or other matter submitted to shareholders for approval and the interests of Rainy Day may differ from the interests of our other shareholders.

Rainy Day, as our largest shareholder, has significant influence in electing our directors and, consequently, has a substantial say in the appointment of our executive officers, our management policies and strategic direction. In addition, certain matters, such as amendments to our articles of incorporation or votes regarding a potential merger or a sale of all or substantially all our assets, require approval of at least two thirds of the shares voted by our shareholders; Rainy Day's approval will be required to achieve any such threshold. Accordingly, should the interests of Rainy Day differ from those of other shareholders, the other shareholders are highly susceptible to the influence of Rainy Day's votes.

Our stock price may be volatile or may decline.

Our common shares have traded as high as US$29.97 and as low as US$0.32 during the period between our initial public offering in 2015 and April 28, 2023.

An active, liquid, and orderly market for our common shares may not be sustained, which could depress the trading price of our common shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration. In addition, broad market, and industry factors, most of which we cannot control, may harm the price of our common shares, regardless of our actual operating performance. In addition, securities markets worldwide have experienced, and are likely to continue to experience, volatility, price changes, volume changes, disruption, and credit contraction, which could adversely affect global economic conditions. This market volatility, as well as general economic, market and political conditions and Canadian dollar exchange rate relative to the U.S. dollar, could subject the market price of our shares to wide price fluctuations regardless of our operating performance.

Our operating results and the trading price of our shares may fluctuate in response to various factors, including:

- conditions and trends affecting our industry or the economy globally, such as higher inflation in North America, increased cost of inventory, third-party services and labour costs;
- central banks raising interest rates, which, along with the higher inflation rates, may weaken consumer sentiment, decrease discretionary spending levels, increase consumer price sensitivity, and negatively impact sales;
- the lingering effect of the COVID-19 pandemic and the conflict in Ukraine and the surrounding region;
- stock market price and volume fluctuations of other publicly traded companies and those that are in the retail industry;
- instability in financial markets or other factors that may affect economic conditions, on a global level or in particular markets;
- fluctuations of the Canadian dollar exchange rate relative to the U.S. dollar;
- variations in our operating performance and the performance of our competitors;
- seasonal fluctuations;
- our entry into new markets;
- actual or anticipated fluctuations in our quarterly financial and operating results or other operating metrics that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our shares;
- issuance of new or changed securities analysts' reports or recommendations;
- loss of visibility as to investor expectations because of a lack of published reports from industry analysts;
- actions and announcements by us or our competitors, including new product offerings, significant acquisitions, strategic partnerships, or divestitures;
- sales, or anticipated sales, of large blocks of our shares, including sales by Rainy Day, our directors, officers or significant shareholders;
- additions or departures of key personnel;
- significant developments relating to our relationships with business partners, vendors, and distributors;
- regulatory developments negatively affecting our industry;
- changes in accounting standards, policies, guidance, interpretation, or principles;
- volatility in our share price, which may lead to higher share-based compensation expense under applicable accounting standards;
- speculation about our business in the press or investment community;
- investors' perception of the retail industry in general and our Company in particular; and
- other events beyond our control such as major catastrophic events, weather, and war.

These and other factors, many of which are beyond our control, may cause our operating results and the market price and demand for our shares to fluctuate substantially. Fluctuations in our quarterly operating results could limit or prevent investors from readily selling their shares and may otherwise negatively affect the market price and liquidity of our shares. In addition, in the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

Our articles and bylaws contain provisions that may have the effect of delaying or preventing a change in control.

Certain provisions of our articles of amendment and bylaws, together or separately, could discourage potential acquisition proposals, delay, or prevent a change in control and limit the price that certain investors may be willing to pay for our common shares. For instance, our bylaws contain provisions that establish certain advance notice procedures for nomination of candidates for election as directors at shareholders' meetings. Any of these provisions may discourage a potential acquirer from proposing or completing a transaction that may have otherwise presented a premium to our shareholders.

Because we are a federally incorporated Canadian corporation and many of our directors and officers are resident in Canada, it may be difficult for investors in the United States to enforce civil liabilities against us based solely upon the federal securities laws of the United States.

We are a federally-incorporated Canadian corporation with our principal place of business in Canada. All of our directors and officers and all or a substantial portion of our assets and those of such persons are located outside the United States. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon us or our directors or officers or such auditors who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the United States *Securities Act of 1933*. Investors in the United States should not assume that Canadian courts: (1) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or "blue sky" laws of any state within the United States or (2) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or any such state securities or blue-sky laws.

Shareholder activism, including public criticism of our company or our management team or litigation, may adversely affect our stock price.

Responding to actions by activist stockholders can be costly and time-consuming and may divert the attention of management and our employees. The review, consideration, and response to public announcements or criticism by any activist shareholder, or litigation initiated by such shareholders, requires the expenditure of significant time and resources by us. We have previously experienced shareholder activism, which became the subject of contention among other of our significant shareholders and ultimately resulted in changes to our Board of Directors and management. Additional public disagreements or proxy contests for the election of directors at our annual meeting could require us to incur significant legal fees and proxy solicitation expenses, may negatively affect our stock price, potentially result in litigation, and may have other material adverse effects on our business.

DIVIDENDS

The Company has never declared or paid regular cash dividends on the common shares. The declaration and payment of any dividends in the future will be determined by the Board of Directors, in its discretion, and will depend on several factors, including our earnings, capital requirements, overall financial condition and contractual restrictions, including restrictions contained in any agreements governing any indebtedness we may incur.

DESCRIPTION OF CAPITAL STRUCTURE

The Company's authorized share capital is an unlimited number of common shares. Holders of common shares are entitled to receive notice of and to attend all meetings of shareholders of the Company and to vote thereat, except meetings at which only holders of a specified class of shares (other than common shares) or specified series of share are entitled to vote. At all meetings of which notice must be given to the holders of the common shares, each holder of common shares is entitled to one vote in respect of each common share held by such holder.

The holders of the common shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive any dividend declared by the Company. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on several factors, including our earnings, capital requirements, overall financial condition and contractual restrictions, including restrictions contained in any agreements governing any indebtedness we may incur.

The holders of the common shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive the remaining property of the Company on a liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or on any other return of capital or distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs.

As of April 28, 2023, the Company's largest shareholder, Rainy Day, owns approximately 45.1% of the common shares issued and outstanding.

MARKET FOR SECURITIES

From June 2015 to April 14, 2023, the Company's common shares were listed on the NASDAQ Global Market under the symbol "DTEA". Since April 3, 2023, the Company's common shares have been listed on the TSX Venture Exchange under the symbol "DTEA". The closing price of the Company's common shares as of April 20, 2023, as reported by the TSX Venture Exchange, was $0.80.

The following table provides the price range and volume of shares traded of our common shares on NASDAQ for each month of the twelve-month period ended on January 28, 2023:

	Price Range (US$)		
Month	**High**	**Low**	**Volume**
February 2022	3.35	2.80	1,028,472
March 2022	2.95	2.65	713,719
April 2022	2.85	2.45	551,36
May 2022	2.28	1.85	686,133
June 2022	2.24	1.70	404,304
July 2022	1.49	1.17	835,027
August 2022	1.84	1.15	734,631
September 2022	1.36	0.675	1,617,682
October 2022	1.04	0.71	885,226
November 2022	0.815	0.695	849,59
December 2022	0.815	0.70	686,151
January 2023 (until January 28)	0.985	0.72	637,139

DIRECTORS AND SENIOR OFFICERS

The following is a list of the names and occupations of our directors and officers and a summary of the business experience of each of them. The term of each of the directors listed below will expire at the next annual meeting of shareholders of the Company.

Name, province and country of residence and position with the Company	Principal occupation	First year as director	Number of shares beneficially owned or over which control is exercised as at April 28, 2023
Jane Silverstone Segal.......................... Québec, Canada Chair of the Board and Director	Chair of the Board of the Company	2021	107,487[4]
Sarah Segal... Québec, Canada Chief Executive Officer, Chief Brand Officer and Director	Chief Executive Officer and Chief Brand Officer of the Company	2021 Previously, director from 2012 to September 2017	120,982
Frank Zitella, CPA, CMA, CA............ Québec, Canada President, Chief Financial and Operating Officer and Corporate Secretary	President, Chief Financial and Operating Officer and Corporate Secretary	—	192,378
Susan L. Burkman[1][2][3]....................... Québec, Canada Director	President Burkman Capital Corporation (investment banking boutique)	2018	7,301
Pat De Marco[1][2][3]............................... Québec, Canada Lead Director	President & COO Viau Food Products Inc. (food processing company)	2018	—
Peter Robinson[1][2][3] .... British Columbia, Canada Director	Private farm owner and former CEO of Mountain Equipment Co-op	2018	5,868

(1) Member of the Audit Committee.
(2) Member of the Human Resources and Compensation Committee.
(3) Member of the Corporate Governance and Nominating Committee.
(4) Jane Silverstone Segal is the spouse of Herschel Segal, who controls Rainy Day. Jane Silverstone Segal also holds 20,000 restricted share units ("RSUs").

Jane Silverstone Segal, BA, LLLL, Chair of the Board and Director. Jane Silverstone Segal was appointed Chair of the Board and Director on September 14, 2021. Mrs. Segal is a seasoned retail industry executive with more than four decades of experience, having held senior leadership positions with the Canadian clothing retailer Le Chateau Inc., including as Chair of the Board and Chief Executive Officer from 2008 to 2020. Mrs. Segal is the founder and owner of the successful children's store Oink located in Westmount, Québec. Passionate about nature and the environment, she worked as a park naturalist for five years in national parks across Canada and is also a longstanding patron of the David Suzuki Foundation. Mrs. Segal holds a Bachelor of Arts from McGill University, Montreal, Québec, and a civil law degree from Université de Montréal, Montreal, Québec. Mrs. Segal is a resident of Québec, Canada.

Sarah Segal, Chief Executive Officer and Chief Brand Officer. Ms. Segal served as the President and Head of the Product Development and Tea Department of DAVIDsTEA from December 2010 to September 2012. Ms. Segal also served as the CEO of the retail company Oink Oink Candy Inc., doing business as "Squish", based in Montreal, Québec. Ms. Segal was appointed VP, Product Development & Innovation of DAVIDsTEA in 2017, Chief Brand Officer on August 21, 2018, and Chief Executive Officer effective December 16, 2020. Ms. Segal received a Bachelor of Arts degree in Environmental Health from McGill University, Montreal, Québec, and an M.Sc. degree in Water Science, Policy and Management from Oxford University, Oxford, England. Ms. Segal is a resident of Québec, Canada.

Frank Zitella, CPA, CMA, CA, President, Chief Financial Officer, Chief Operating Officer and Corporate Secretary. Mr. Zitella joined the Company on December 10, 2018 as Chief Financial Officer and Corporate Secretary and on April 26, 2019 assumed responsibilities as the Company's Chief Operating Officer. Mr. Zitella was appointed President effective December 16, 2020. Mr. Zitella has close to 30 years of finance, strategic planning and corporate tax planning experience and prior to joining DAVIDsTEA, was Chief Financial Officer of Loop Industries Inc. (NASDAQ: LOOP) and served for over eleven years as the Vice President and Chief Financial Officer of DST Health Solutions, LLC, a subsidiary of SS&C Technologies Holdings, Inc. (NASDAQ: SSNC), and for over eight years as the Chief Financial Officer of International Financial Data Services, a joint venture between State Street Bank and SS&C Technologies Holdings, Inc. Mr. Zitella received his Bachelor of Commerce degree from Concordia University, Montreal, Québec and his Graduate Diploma in Public Accountancy from McGill University, Montreal, Québec. Mr. Zitella is a resident of Québec, Canada.

Pat De Marco, CPA, CA, Lead Director (June 14, 2018 to present). Mr. De Marco has served as President and Chief Operating Officer of Viau Food Products Inc. of Laval, Québec, a large Canadian processor of beef and pork products, since 2008. Prior thereto, Mr. De Marco held senior executive positions at Moores Retail Group Inc., Canada's leading menswear retailer, from 1995 as Chief Financial Officer and from 2002 as President. Prior to that, Mr. De Marco was a partner at Ernst & Young LLP, where for 13 years he audited and consulted for companies in the manufacturing, real estate and consumer goods sectors. Mr. De Marco is a CPA and holds a Bachelor of Commerce degree from Concordia University, Montreal, Québec. Mr. De Marco is a resident of Québec, Canada.

Susan L. Burkman, Director (August 23, 2018 to present). Ms. Burkman is an experienced financial consulting executive. Throughout her 35 years in the investment banking industry, she has successfully led equity, M&A, and valuation and fairness opinion transactions for more than $6 billion for Canadian companies across numerous industries. Since 2007, she has been majority shareholder and President of Burkman Capital Corporation, an investment banking boutique located in Bromont, Québec. From 1997 to 2007, Ms. Burkman was a partner at Griffiths McBurney and Partners and a Director at GMP Securities where she led the Investment Banking Group in Montreal. Prior thereto, Ms. Burkman was President of Mathurin-Burkman Inc., an investment banking boutique, a Vice-President and member of the Board of Directors of McNeil Mantha Inc., then a publicly traded Canadian securities brokerage firm, and held positions with Wood Gundy Securities in Toronto and with the Corporate Banking division of Bank of Montreal. Ms. Burkman started her professional career as an auditor with KPMG at its Pittsburgh, Pennsylvania and Toronto, Ontario offices. Since 2012, Ms. Burkman has been a member of the Board of Directors of Olameter Inc., a provider of outsourced utility solutions in North America based in Montreal. Ms. Burkman holds both a Bachelor of Arts degree and Master of Business Administration degree from the University of Pittsburgh and became a Certified Public Accountant in Pennsylvania. Ms. Burkman is a resident of Québec, Canada.

Peter Robinson, Director (June 14, 2018 to present). Mr. Robinson possesses diverse leadership experience spanning more than four decades in business, government, and the non-profit sectors. He was Chief Executive Officer of the David Suzuki Foundation from 2008 to 2017 and, from 2000 to 2008, was Chief Executive Officer of Mountain Equipment Co-op, a Canadian consumers' cooperative that sells outdoor recreation gear and clothing exclusively to its members. From 1983 to 2000, Mr. Robinson held several positions with BC Housing, a government agency, including Chief Executive Officer from 1999 to 2000. Mr. Robinson holds a Bachelor of Arts degree in geography from Simon Fraser University, Burnaby, British Columbia, and a Master of Arts degree in Conflict Analysis and Management and a Doctor of Social Sciences degree, both from Royal Roads University, Victoria, British Columbia. He has been extensively involved in community and humanitarian work, including serving as a director from 2012 to 2017 of Imagine Canada, a national charitable organization, governor of the Canadian Red Cross Society from 2010 to 2012, and Chair of the Board of Governors and Chancellor of Royal Roads University from 2007 to 2010. Mr. Robinson is a resident of British Columbia, Canada.

Beneficial Ownership

As at April 28, 2023, the directors and senior officers beneficially owned, or exercised control or direction over, directly or indirectly, an aggregate of 434,106 common shares, representing 1.6% of the issued and outstanding common shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the Company's knowledge, none of the foregoing directors or executive officers of the Company is as of the date of this AIF, or has been within ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that:

(a) was subject to a cease trade or similar order, or an order that denied such company access to any exemption under applicable securities legislation for a period of more than 30 consecutive days (an "**Order**") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of such company; or

(b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of such company.

Other than as set out below, to the Company's knowledge, none of the foregoing directors or executive officers of the Company, or a shareholder holding enough securities of the Company to affect materially its control:

(a) is, as of the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

With the exception of Jane Silverstone Segal, who was appointed Chair of the Board and a director on September 14, 2021, each director and executive officer of the Company held his or her current position or was otherwise employed by the Company during the CCAA proceedings described above under "Developments in the Past Three Years – Developments in Fiscal 2020" and "Developments in the Past Three Years – Developments in Fiscal 2021".

Jane Silverstone Segal, Chair of the Board, was a director of Le Château Inc. ("Le Château") until her resignation effective December 16, 2020. On January 11, 2021, Le Château announced that it had received a cease trade order issued by the Autorité des marchés financiers as a result of Le Château's failure to file its unaudited interim financial statements, management's discussion and analysis and related CEO and CFO certifications for the three and nine-month periods ended October 24, 2020. On October 23, 2020, Le Château obtained an order from the Québec Superior Court under the CCAA in order to proceed with the orderly liquidation of its assets and wind down of its operations, which order appointed PwC as monitor to Le Château to oversee its operations during the liquidation. On November 2, 2020, Le Château obtained a liquidation order from the Québec Superior Court, allowing Le Château to proceed with the sale of its assets and wind down of its operations.

Oink Oink Candy Inc., doing business as "Squish", is a company controlled by Sarah Segal, Chief Executive Officer and Chief Brand Officer of the Company. On July 28, 2020, Oink Oink Candy Inc. filed a notice of intention to file a proposal pursuant to the *Bankruptcy and Insolvency Act* (Canada). Raymond Chabot Inc. was appointed as trustee to the notice of intention. On November 25, 2020, Oink Oink Candy Inc. filed a proposal pursuant to the *Bankruptcy and Insolvency Act*. On December 16, 2020, a creditors' meeting was held to vote on the proposal, at which the proposal was approved by the required majority of creditors. On January 21, 2021, the Québec Superior Court approved and homologated the proposal. On February 24, 2021, Raymond Chabot Inc., as trustee, signed a Certificate of Full Performance of the proposal.

To the Company's knowledge, none of the foregoing directors or executive officers of the Company, or a shareholder holding enough securities of the Company to affect materially its control, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the normal course of business activities, the Company is subject to various legal actions. The Company contests these actions and believes that their resolution will not have a material adverse impact on the Company's financial condition.

During Fiscal 2022, the Company (i) was not subject to any penalty or sanction imposed by a court relating to securities legislation or by a securities regulatory authority, (ii) was not subject to any other penalty or sanction imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision, and (iii) did not enter into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or senior officer of the Company, and no person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the common shares, and any of their respective associates or affiliates, has or had a material interest, direct or indirect, in any transaction, within the three most recently-completed fiscal years or during the current fiscal year, that has materially affected or is reasonably expected to materially affect the Company.

MATERIAL CONTRACTS

Other than as may be set out in this AIF, the Company did not enter into any contract out of the ordinary course of its business during Fiscal 2022.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is TSX Trust Company, 301-100 Adelaide Street West, Toronto, Ontario, Canada, M5H 4H1. The Company's co-transfer agent in the United States is American Stock Transfer & Trust Co.

NAMES AND INTERESTS OF EXPERTS

The Company's external auditors are Ernst & Young LLP, 900 de Maisonneuve Blvd. West, Suite 2300, Montreal, Québec, who reported on the 2022 Consolidated Financial Statements, which financial statements have been filed under Québec *Regulation 51-102 respecting Continuous Disclosure Obligations* and National Instrument 51-102 *Continuous Disclosure Obligations*. Ernst & Young LLP is independent in accordance with auditors' rules of professional conduct in Québec.

INFORMATION ON THE AUDIT COMMITTEE

Audit Committee Charter

The Audit Committee Charter sets out the roles and responsibilities of the Audit Committee of the Board of Directors. A copy of the Charter is attached hereto as Schedule A.

Composition of the Audit Committee

The Audit Committee is composed of Pat De Marco (chair), Susan L. Burkman and Peter Robinson. Each member of the Audit Committee is independent and financially literate within the meaning of Québec *Regulation 52-110 respecting Audit Committees* and National Instrument *52-110 Audit Committees*. The Board has determined that Pat De Marco and Susan L. Burkman are "Audit Committee financial experts".

Financial Literacy

Each member of the Audit Committee has a good command of generally accepted accounting principles and has the ability to understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements. More information on how these members acquired that financial literacy is described under "Directors and Senior Officers".

External Auditor Service Fees

The following table sets out the aggregate fees billed to the Company for Fiscal 2022 and Fiscal 2021 by EY:

	For the year ended	
	January 28, 2023 $	January 29, 2022 $
Audit fees[(1)]	522,550	547,240
Audit-related fees[(2)]	—	—
Tax fees[(3)]	—	—
All other fees[(4)]	—	40,065
	522,550	587,305

(1) Audit fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements and review of the interim consolidated financial statements included in our quarterly reports, consultation concerning financial reporting and accounting standards, and services provided in connection with statutory and regulatory filings or engagements, including consent procedures in connection with public filings.
(2) Audit-related fees consist of fees billed for related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and that are not reported under "Audit Fees".
(3) Tax fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning (domestic and international). These services include assistance regarding federal, provincial, state, and international tax compliance, and transfer pricing studies and advisory services.
(4) All other fees consist of fees for all other professional services and products rendered by EY.

All fees paid and payable by the Company to EY in Fiscal 2022 and Fiscal 2021 were pre-approved by the Company's Audit Committee pursuant to the procedures and policies set forth in the Audit Committee mandate. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval. The Chair of the Audit Committee is also authorized, pursuant to delegated authority, to pre-approve additional services on a case-by-case basis, and such approvals are communicated to the full Audit Committee at its next meeting.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness (if any), principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, that is not included herein, will be contained in the Company's Management Information Circular to be sent and filed in connection with the Company's annual meeting of shareholders to be held on held on June 13, 2023. Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional financial information may be found in the 2022 Consolidated Financial Statements and Management's Discussion and Analysis for Fiscal Year 2022.

SCHEDULE A
AUDIT COMMITTEE CHARTER

STATUS

The Audit Committee (the "*Committee*") is a committee of the Board of Directors (the "*Board*") of DAVIDsTEA Inc., a federally incorporated Canadian corporation (the "*Company*"). The Committee adopted this Audit Committee Charter on March 31, 2015.

PURPOSE

The Committee is appointed by the Board for the primary purposes of:

- Assisting the Board in fulfilling its oversight responsibilities as they relate to the Company's accounting policies and internal controls, financial reporting practices and legal and regulatory compliance, including, among other things:
- Monitoring the integrity of the Company's financial statements, corporate accounting and financial reporting processes and financial information that will be provided to shareholders and others;
- reviewing the Company's compliance with certain legal and regulatory requirements;
- evaluating the independent auditors' qualifications and independence; and
- monitoring the performance of the Company's internal audit function and the Company's independent auditors as well as any other public accounting firm engaged to perform other audit, review or attest services;
- Maintaining, through regularly scheduled meetings, a line of communication between the Board and the Company's financial management, internal auditors and independent auditors, and
- Annually evaluating the performance of the Committee.

While the Committee has the duties and responsibilities set forth in this Charter, the role of the Committee is oversight. The Committee is not responsible for planning or conducting the audit or determining whether the Company's financial statements are complete and accurate and in accordance with applicable accounting rules. Such activities are the responsibility of management and the Company's independent auditors. The Committee and its members are not preparers, auditors, or certifiers of the Company's financial statements or guarantors of the Company's independent auditors' reports. It is not the duty or responsibility of the Committee to ensure that the Company complies with all laws and regulations. The Committee and each of its members shall be entitled to rely on (a) the integrity of those persons and organizations within and outside of the Company from which it receives information, (b) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board), and (c) representations made by management as to any audit and non-audit services provided by the independent auditors to the Company.

COMPOSITION AND QUALIFICATIONS

The Committee shall be appointed by the Board and shall be comprised of three or more directors (as determined from time to time by the Board), each of whom shall, in the absence of an applicable exemption, meet the 'independence' requirements of the Sarbanes-Oxley Act of 2002 (the "*Act*"), NASDAQ Global Market ("*NASDAQ*"), and all other applicable laws and regulations. The Committee may avail itself of any phase-in compliance periods available to the Company that are afforded by applicable rules of NASDAQ or applicable law. Each member of the Committee shall be financially literate, as determined by the Board in their business judgment. At least one member of the Committee shall have accounting or related financial management expertise, as determined by the Board in its business judgment. The Board shall determine whether the Committee has an "audit committee financial expert" as defined by the rules promulgated by the Securities and Exchange Commission ("*SEC Rules*") and whether such expert is "independent" from management as defined in the applicable SEC Rules.

A Committee member invited to sit on another public company's audit committee must notify the Board. The Board must determine whether or not the Committee member's service on another company's audit committee impairs the director's ability to serve on the Company's Committee. Committee members should be on no more than three public company audit committees; however, the Board may waive this limit in accordance with the applicable rules of the NASDAQ Stock Market.

MEETINGS

Frequency

The Committee shall meet as frequently as the Chairman of the Committee deems appropriate. The Committee may meet with the independent auditors and management separately, to the extent the Committee deems necessary and appropriate.

Agenda and Notice

The Chairman of the Committee shall establish the meeting dates and the meeting agenda. The Chairman of the Committee or the Company Secretary shall send proper notice of each Committee meeting and information concerning the business to be conducted at the meeting, to the extent practical, to each member prior to each meeting. The Chairman or a majority of the members of the Committee may call a special meeting of the Committee at any time.

Holding and Recording Meetings

Committee meetings may be held in person or telephonically. The Committee shall keep written minutes of its meetings and submit such minutes to the Board.

Quorum

A majority of the members of the Committee shall constitute a quorum.

COMPENSATION

The compensation of Committee members shall be determined by the Board.

RESPONSIBILITIES

System of Financial Controls

The Committee shall oversee the process by which management shall design, implement, amend, maintain, and enforce a comprehensive system of financial controls (including the right internal and external people and resources, policies, processes and enforcement) aimed at ensuring the integrity and compliance of the Company's books and records with International Financial Reporting Standards ("*IFRS*") as issued by the International Accounting Standards Board, and sound business practices, as well as protecting the value of the Company's assets and safeguarding the credibility of its brand, employees, management team, board of directors, and shareholders. Such system of financial controls will embody the adoption of best practices in financial controls and foster honesty, integrity, accuracy, and transparency in all aspects of the Company. Best practices include but are not limited to: setting the right tone at the top; active review of business performance by executive management, with regular reporting to and oversight by the Board; an accurate, stable and reliable general ledger; a robust internal audit function; unambiguous compliance with IFRS; and full transparency and ongoing dialogue with the Board, Audit Committee and external auditors. Such system shall also incorporate the principals contained within the Company's Code of Business Ethics and Conduct, as adopted by the Board.

Annual Audit Review

Review and discuss the annual audited financial statements including the independent auditors' audit and audit report thereon, and the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" with management and the independent auditors. In connection with such review, the Committee will:

- Review the scope of the audit, the audit plan and the audit procedures utilized;
- Review and discuss the integrity of the annual audited Company financial statements and quarterly financial statements with management and the independent auditors, including the notes thereto and all matters required by applicable auditing standards, and the written disclosures required by applicable auditing standards regarding the independent auditor's independence;
- Review significant changes in accounting or auditing practices, principles or policies;
- Review with the independent auditors any problems or difficulties encountered in the course of their audit, including any change in the scope of the planned audit work and any restrictions placed on the scope of such work or access to requested

information, and any significant disagreements with management, and management's response to such problems or difficulties;

- Review with the independent auditors, management, and the senior internal auditing executive, if any, the adequacy of the Company's internal controls, including information systems controls and security and bookkeeping controls and any significant findings and recommendations with respect to such controls;
- Review reports required to be submitted by the independent auditor concerning: (a) all critical accounting policies and practices used; (b) all alternative treatments of financial information within IFRS that have been discussed with management, the ramifications of such alternatives, and the accounting treatment preferred by the independent auditors; and (c) any other material written communications with management, such as the management letter or schedule of unadjusted differences;
- Review (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; and (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternative IFRS methods on the financial statements and the effects of regulatory and accounting initiatives, as well as off- balance sheet structures, on the financial statements of the Company.
- Inquire about and review with management and the independent auditors any significant risks or exposures faced by the Company and discuss with management the steps taken to minimize such risk or exposure. Such risks and exposures include, but are not limited to, threatened and pending litigation, claims against the Company, tax matters, regulatory compliance and correspondence from regulatory authorities, and environmental exposure; and
- Discuss policies and procedures concerning earnings press releases and review the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-IFRS information), as well as financial information and earnings guidance provided to analysts and rating agencies.

Quarterly Reviews

Review and discuss the quarterly financial statements with management, the senior internal auditing executive, if any, and the independent auditor, together with the independent auditors' review thereof pursuant to professional standards and procedures for conducting such reviews, as established by IFRS. In connection with the quarterly reviews, the Committee shall inquire about and review with management and the independent auditors any significant risks or exposures faced by the Company and discuss with management the steps taken to minimize such risk or exposure.

Oversight of Independent Auditors

Oversee the performance and independence of independent auditors. The Company's independent auditors shall report directly to and are ultimately accountable to the Committee. In connection with its oversight of the performance and independence of the independent auditors, the Committee will:

- Have the sole authority and direct responsibility to appoint, retain, compensate, oversee and replace (subject to shareholder approval, if deemed advisable by the Board) the independent auditors;
- Have authority to approve the engagement letter and all audit, audit-related, tax and other permissible non-audit services proposed to be performed by the independent auditors and the related fees for such services;
- Obtain confirmation and assurance as to the independent auditors' independence, including ensuring that they submit on a periodic basis (not less than annually) to the Committee a formal written statement delineating all relationships between the independent auditors and the Company. The Committee shall actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and shall take appropriate action in response to the independent auditors' report to satisfy itself of their independence;
- At least annually, obtain and review a report by the independent auditors describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;
- Meet with the independent auditors prior to the annual audit to discuss planning and staffing of the audit;
- Review and evaluate the performance of the independent auditors, as the basis for a decision to reappoint or replace the independent auditors;
- Set clear hiring policies for employees or former employees of the independent auditors, including but not limited to, as required by all applicable laws and listing rules; and

- Assure regular rotation of the lead audit partner, as required by the Act, and consider whether rotation of the independent auditor is required to ensure independence.

Oversight of Internal Audit

Oversee the internal audit coverage and related matters. In connection with its oversight responsibilities, the Committee shall have authority over and direct responsibility for the internal audit function at the Company at all times when the Company has such a function. In the Committee's discretion, the internal audit function may be outsourced to a third party vendor, provided that such vendor follows the standards and guidelines established by the Committee. The head of the internal audit function (or the third party vendor providing internal audit function support, if applicable) will report directly to the Committee or its designee. The head of the internal audit function or the relationship manager of the vendor providing internal audit function support, as applicable, shall report at least annually to the Committee regarding the internal audit function's organizational structure and personnel. In overseeing internal audit, the Committee will:

- Review the appointment or replacement of the senior internal auditing executive, if any, or, if outsourced, the third party vendor providing internal audit services;
- Review, in consultation with management, the independent auditors and the senior internal auditing executive, if any, the plan and scope of internal audit activities;
- Review internal audit activities, budget and staffing; and
- Review significant reports to management prepared by the internal auditing department and management's responses to such reports.

Review of Internal Controls

Review with management, the independent auditors and the senior internal auditing executive, if any, the adequacy of the Company's internal controls, and any significant findings and recommendations with respect to such controls.

Risk Assessment and Risk Management

The Committee shall discuss the Company's major business, operational, and financial risk exposures and the guidelines, policies and practices regarding risk assessment and risk management, including derivative policies, insurance programs and steps management has taken to monitor and control major business, operational and financial risks.

Resolve Differences

The Committee will resolve any differences in financial reporting between management and the independent auditors.

Code of Conduct

The Committee shall establish, maintain and oversee the Company's code of business ethics and conduct including dealing with issues that may arise under the code of business ethics and conduct related to executive officers and directors of the Company.

Conflicts of Interest

The Committee shall establish, maintain and oversee the Company's related party transaction policy, including overseeing the process for approval of all related-party transactions involving executive officers and directors.

Submission of Complaints

The Committee shall establish, maintain and oversee procedures for (a) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Access to Records and Personnel

The Committee shall have full access to any relevant records of the Company that it deems necessary to carry out its responsibilities. The Committee may request that any officer or other employee of the Company or any advisor to the Company meet with members of the Committee or its advisors, as it deems necessary to carry out its responsibilities.

Executive Sessions

The Committee will meet periodically (not less than annually) in separate executive session with each of the chief financial officer or any other executive officer, the principal accounting officer and/or the senior internal auditing executive (or any other personnel responsible for the internal audit function, if any), and the independent auditors.

Legal Compliance

Review periodically including in conjunction with the annual audit with the Company's in-house counsel (a) legal and regulatory matters which may have a material effect on the Company and/or its financial statements, and (b) corporate compliance policies or codes of conduct.

Regulatory Developments

The Committee shall monitor and provide reports to the Board with respect to developments in accounting rules and practices, income tax laws and regulations, and other regulatory requirements that affect matters within the scope of the Committee's authority and responsibilities.

Funding

The Company shall provide appropriate funding, as determined by the Committee, for payment of compensation to the independent auditors or any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; to any other advisors engaged by the Committee; and of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

Independent Advisors

The Committee shall have authority to engage, determine funding and cause the Company to pay the compensation to obtain advice and assistance from outside legal, accounting or other advisors to carry out its responsibilities.

Reports to Board of Directors

The Committee shall report regularly to the Board with respect to Committee activities, and its conclusions with respect to the independent auditor, with recommendations to the Board as the Committee deems appropriate.

Review of This Charter

The Committee shall review and reassess annually the adequacy of this Committee Charter and recommend any proposed changes to the Board.

Evaluation of Committee

The Committee is responsible for developing and conducting an annual self-assessment of its performance. The Committee shall report to the full Board on the results of its assessment each year and shall make any appropriate recommendations to further enhance the Committee's performance.

Other Responsibilities

The Committee shall perform such other duties as may be required by law or requested by the Board or deemed appropriate by the Committee. The Committee shall discharge its responsibilities, and shall assess the information provided to the Committee, in accordance with its business judgment. The Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate.