FORM 10-Q

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

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

For the quarterly period ended October 31, 2020

OR

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

For the transition period from __________ to __________

Commission file number 001-37404

DAVIDsTEA Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Securities Registered Pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12-b2 of the Exchange Act.

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

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

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

As of December 11, 2020, 26,230,907 common shares of the registrant were outstanding.

DAVIDsTEA Inc.

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PART II. OTHER INFORMATION

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

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

On December 11, 2020, the Bank of Canada closing average exchange rate was US$1.00 = CAD$1.2769

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Part I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited and in thousands of Canadian dollars]

		As at	
		October 31, 2020 $	**February 1, 2020 $**
Current			
Cash		**21,925**	46,338
Accounts and other receivables		**7,669**	6,062
Inventories	[Note 5]	**26,176**	22,363
Income tax receivable		**222**	1,196
Prepaid expenses and deposits		**13,400**	4,542
Total current assets		**69,392**	80,501
Property and equipment	[Note 6]	**2,905**	17,737
Intangible assets		**4,311**	6,339

Right-of-use assets	[Note 6]	**816**	35,082
Total assets		**77,424**	139,659
LIABILITIES AND EQUITY			
Current			
Trade and other payables		**3,621**	20,794
Deferred revenue		**5,766**	6,852
Liabilities subject to compromise	[Note 7]	**71,653**	—
Current portion of lease liabilities		**519**	16,434
Total current liabilities		**81,559**	44,080
Non-current portion of lease liabilities		**403**	72,230
Total liabilities		**81,962**	116,310
Commitments and contingencies			
Equity			
Share capital	[Note 8]	**113,139**	112,843
Contributed surplus		**1,761**	1,577
Deficit		**(120,836)**	(92,278)
Accumulated other comprehensive income		**1,398**	1,207
Total equity (deficiency)		**(4,538)**	23,349
Total liabilities and equity		**77,424**	139,659

See accompanying Notes.

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DAVIDsTEA Inc.

Incorporated under the laws of Canada

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

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

		For the three months ended		For the nine months ended	
		October 31, 2020 $	November 2, 2019 $	October 31, 2020 $	November 2, 2019 $
Sales	[Note 14]	**26,225**	39,493	**81,497**	122,925
Cost of sales		**15,399**	18,139	**47,409**	53,430
Gross profit		**10,826**	21,354	**34,088**	69,495
Selling, general and administration expenses	[Note 9]	**7,120**	30,670	**35,883**	90,254
Restructuring plan activities, net	[Note 10]	**(10,743)**	—	**24,017**	—
Results from operating activities		**14,449**	(9,316)	**(25,812)**	(20,759)
Finance costs		**35**	1,699	**3,260**	5,305
Finance income		**(53)**	(185)	**(361)**	(570)
Net income (loss)		**14,467**	(10,830)	**(28,711)**	(25,494)
Other comprehensive income (loss)					
Items to be reclassified subsequently to income:					
Cumulative translation adjustment		**209**	(26)	**191**	(141)
Other comprehensive earnings (loss), net of tax		**209**	(26)	**191**	(141)
Total comprehensive income (loss)		**14,676**	(10,856)	**(28,520)**	(25,635)
Net income (loss) per share:					
Basic	[Note 12]	**0.55**	(0.42)	**(1.10)**	(0.98)
Fully diluted	[Note 12]	**0.54**	(0.42)	**(1.10)**	(0.98)
Weighted average number of shares outstanding					
Basic	[Note 12]	**26,214,573**	26,068,435	**26,143,963**	26,048,239
Fully diluted	[Note 12]	**26,767,470**	26,068,435	**26,143,963**	26,048,239

See accompanying Notes.

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DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited and in thousands of Canadian dollars]

	For the three months ended		For the nine months ended	
	October 31, 2020 $	November 2, 2019 $	October 31, 2020 $	November 2, 2019 $
OPERATING ACTIVITIES				
Net Income (loss)	**14,467**	(10,830)	**(28,711)**	(25,494)
Items not affecting cash:				
Depreciation of property and equipment	**237**	1,313	**1,781**	3,997
Amortization of intangible assets	**420**	517	**1,503**	1,372
Amortization of right-of-use assets	**189**	2,938	**2,882**	9,153
Gain on modification of lease liabilities	**(20,385)**	—	**(75,121)**	—
Liabilities subject to compromise	**2,633**	—	**71,653**	—
Interest on lease liabilities	**29**	1,699	**3,216**	5,305
Loss on disposal of property and equipment and right-of-use assets	**18**	—	**1,560**	22
Impairment of property and equipment and right-of-use assets	**—**	2,051	**39,960**	7,076
Stock-based compensation expense	**198**	256	**778**	526
Sub-total	**(2,194)**	(2,056)	**19,501**	1,957
Net change in other non-cash working capital balances related to operations	**(9,822)**	6,842	**(39,397)**	6,272
Cash flows from (used in) operating activities	**(12,016)**	4,786	**(19,896)**	8,229
FINANCING ACTIVITIES				
Proceeds from issuance of common shares pursuant to exercise of stock options	**—**	9	**3**	9
Payment of lease liabilities	**(250)**	(5,720)	**(5,824)**	(17,342)
Cash flows used in financing activities	**(250)**	(5,711)	**(5,821)**	(17,333)
INVESTING ACTIVITIES				
Additions to property and equipment	**(91)**	(44)	**(402)**	(778)
Additions to intangible assets	**(3)**	(485)	**(320)**	(2,148)
Repayment (issuance) of loan from a Company controlled by an executive employee	**—**	(227)	**2,026**	(2,000)
Cash flows from (used in) investing activities	**(94)**	(756)	**1,304**	(4,926)
Decrease in cash during the period	**(12,360)**	(1,681)	**(24,413)**	(14,030)
Cash, beginning of the period	**34,285**	29,725	**46,338**	42,074
Cash, end of the period	**21,925**	28,044	**21,925**	28,044
Supplemental Information				
Cash paid for:				
Interest	**—**	—	**—**	—
Income taxes (classified as operating activity)	—	—	**—**	—
Cash received for:				
Interest	**50**	217	**329**	622
Income taxes (classified as operating activity)	**—**	2,780	**870**	2,948

See accompanying Notes.

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF EQUITY (DEFICIENCY)

[Unaudited and in thousands of Canadian dollars]

	Share Capital $	Contributed Surplus $	Deficit $	Accumulated Other Comprehensive Income $	Total Equity (Deficiency) $
Balance, February 1, 2020	**112,843**	**1,577**	**(92,278)**	**1,207**	**23,349**
Net loss for the nine months ended October 31, 2020	**—**	**—**	**(28,711)**	**—**	**(28,711)**
Other comprehensive loss	**—**	**—**	**—**	**191**	**191**
Total comprehensive loss	**—**	**—**	**(28,711)**	**191**	**(28,520)**
Issuance of common shares	**4**	**(1)**	**—**	**—**	**3**
Common shares issued on vesting of restricted stock units	**292**	**(593)**	**153**	**—**	**(148)**

Stock-based compensation expense	**—**	**778**	**—**	**—**	**778**
Balance, October 31, 2020	**113,139**	**1,761**	**(120,836)**	**1,398**	**(4,538)**
Balance, February 2, 2019	112,519	1,400	(61,293)	1,497	54,123
Net loss for the nine months ended November 2, 2019	—	—	(25,494)	—	(25,494)
Other comprehensive loss	—	—	—	(141)	(141)
Total comprehensive loss	—	—	(25,494)	(141)	(25,635)
Issuance of common shares	13	(4)	—	—	9
Common shares issued on vesting of restricted stock units	303	(628)	212	—	(113)
Stock-based compensation expense	—	526	—	—	526
Balance, November 2, 2019	112,835	1,294	(86,575)	1,356	28,910

See accompanying Notes.

DAVIDsTEA Inc.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine-month periods ended October 31, 2020 and November 2, 2019 [Unaudited]

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

1. CORPORATE INFORMATION

The unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the three and nine-month periods ended October 31, 2020 were authorized for issue in accordance with a resolution of the Board of Directors on December 15, 2020. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the Nasdaq Global Market under the symbol “DTEA”. The registered office is located at 5430 Ferrier St., Town of Mount-Royal, Québec, Canada, H4P 1M2.

The Company is a branded retailer and growing mass wholesaler of specialty tea, offering a differentiated selection of proprietary loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts and accessories through its e-commerce platform at www.davidstea.com and in 18 Company-owned and operated retail stores in Canada. A selection of DAVIDsTEA products is also available in more than 2,500 grocery stores and pharmacies across Canada. The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. Sales fluctuate from quarter to quarter. Sales are traditionally highest in the fourth fiscal quarter due to the year-end holiday season and tend to be lowest in the second and third fiscal quarters because of lower customer engagement during the summer months.

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

The Company qualifies for the Canada Emergency Wage Subsidy (“CEWS”) under the COVID-19 Economic Response Plan of the Government of Canada. During the three and nine-month periods ended October 31, 2020, the Company recognized payroll subsidies of $1.4 million and $3.4 million, respectively under this wage subsidy program as a reduction in the associated wage costs which the Company incurred, which was recognized in Selling, general and administration expenses.

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 at www.davidstea.com and its wholesale distribution channel, through which it sells a selection of DAVIDsTEA products in grocery stores and pharmacies across Canada. Following a careful review of available options to stem the losses from its brick-and-mortar footprint, the Company’s management and Board of Directors determined that the formal Restructuring Plan was the best option in the context of an increasingly challenging retail environment, further exacerbated by the COVID-19 pandemic.

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

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

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

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

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

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

2. BASIS OF PREPARATION AND GOING CONCERN UNCERTAINTY

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Accordingly, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended February 1, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. In management's opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies and methods of computation as outlined in Note 3 of the consolidated financial statements for the year ended February 1, 2020, other than as disclosed in Note 3 below.

Going Concern Uncertainty

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

On July 8, 2020, the Company announced that it was implementing the Restructuring Plan under applicable laws in both Canada and the United States in order to accelerate its transition to predominantly an online retailer and wholesaler of high-quality tea and accessories. As part of the Restructuring Plan, the Company sent notices to terminate leases for 82 of its stores in Canada and all 42 of its stores in the United States.On July 30, 2020, the Company sent notices to terminate leases for an additional 82 of its stores in Canada and on August 21, 2020, re-opened 18 of its stores throughout Canada.

Although the Company continues to offer its products directly to consumers through its online store and in supermarkets and drugstores across Canada, it is unlikely that customers will purchase its products at previous volumes through these alternative channels. Furthermore, the duration and impact of the COVID-19 pandemic is unknown and may influence consumer shopping behavior and consumer demand including online shopping. Notwithstanding that the Company expects to emerge from the Restructuring Plan as a leaner organization, there is no assurance that the Restructuring Plan will be successful and that all relevant and required regulatory, creditor and court approvals will be obtained.

For the three and nine-month periods ended October 31, 2020, the Company reported a net income of $14.5 million and incurred a net loss of $28.7 million, respectively. The Company's current liabilities total $81.6 million as at October 31, 2020. As at October 31, 2020, the Company held cash and accounts and other receivables of $29.6 million. The Company does not currently have any third-party financing available with which to meet any future financial obligations.

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

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

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

These interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These interim condensed consolidated financial statements as at and for the three and nine-month periods ended October 31, 2020 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

3. CHANGES IN ACCOUNTING POLICIES

Recently Issued Accounting Pronouncements

On May 28, 2020, the IASB issued an amendment to IFRS 16, "Leases" to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions.

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

In preparing these unaudited condensed interim consolidated financial statements, critical judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those referred to in Note 5 of the consolidated financial statements for the year ended February 1, 2020. As of February 2, 2020, the Company also considered the impacts related to COVID-19 and the Restructuring Plan to its use of estimates and judgments, as appropriate, within its unaudited interim condensed consolidated financial statements. Estimates and assumptions are subject to inherent uncertainty, which may result in actual amounts differing from reported amounts.

Key sources of estimation uncertainty

Lease termination

The unaudited interim consolidated statement of income (loss) includes amounts for net Restructuring Plan activities (Note 10). As a result of the termination of leases pursuant to the Restructuring Plan, included in these net Restructuring Plan activities amounts are estimates the Company has made for allowed claims in the three and nine-months ended October 31, 2020 amounting to $6.7 million and $49.6 million, respectively. The estimate for the allowed claim is based on the Company's best estimate and is based on the total undiscounted lease liability offset by an estimate of the losses that affected landlords will be able to successfully mitigate, informed by proofs of claim submitted by creditors. This provision is subject to significant estimation uncertainty, as proceedings are in a preliminary stage. Changes to the provision in future periods may be material and will be recorded through earnings.

Recoverability and impairment of non-financial assets

The temporary store closures as a result of COVID-19, as well as the permanent closure of a majority of our retail stores resulting from the Restructuring Plan, and the related reduction in operating income during fiscal 2020 are considered to be indicators of impairment and the Company performed an assessment of recoverability for the property and equipment and right-of-use assets associated with its retail locations.

Key judgments in applying accounting principles

Lease liabilities

The temporary store closures as a result of COVID-19, and the resulting non-payment of rent for the months of April, May, June and part of July as well as the Restructuring Plan led the Company to make significant judgments with respect to the impacts of these events on the lease liabilities as of October 31, 2020. These include considerations such as the accounting for rent concessions, and the timing of termination of leases.

For all leases terminated as a result of the Restructuring Plan and for which the notice period had expired, lease liabilities under IFRS 16 were determined to have been modified.

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5. INVENTORIES

During the three and nine-month periods ended October 31, 2020, inventories recognized as cost of sales amounted to $6,738 and $21,498, respectively [November 2, 2019 - $10,635 and $34,252, respectively]. During the three and nine-month periods ended October 31, 2020, the cost of inventory includes write-downs of $386 and $1,305, respectively [November 2, 2019 – reversal of write downs of $5 and $498, respectively] recorded as a result of net realizable value being lower than cost.

	October 31, 2020 $	**February 1, 2020 $**
Finished goods	**22,141**	18,590
Goods in transit	**1,294**	2,059
Packaging	**2,741**	1,714

	26,176	22,363

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

An assessment of impairment indicators was performed which caused the Company to review the recoverable amount of the property and equipment, and right-of-use assets for certain cash generating units ("CGUs") with an indication of impairment. CGUs reviewed included stores that were permanently closed as part of the Restructuring Plan and the remaining stores that are expected to perform below the Company's previous projections.

As a result, for the three and nine-month periods ended October 31, 2020, the Company recorded an impairment loss of nil and $13,167, respectively, related to property and equipment, [November 2, 2019 - nil and nil, respectively] and nil and $26,793, respectively, related to right-of-use assets [November 2, 2019 - 2,051 and 7,076, respectively].

These impairment losses are further broken down as follows:

	For the nine months ended October 31, 2020		
	Stores permanently closed $	**Stores that remain open $**	**Total $**
Property and equipment	12,966	201	13,167
Right-of-use assets	24,433	2,360	26,793
	37,399	2,561	39,960

The impairment loss taken in the first quarter of 2020 related to the stores that remain open was determined by comparing the carrying amount of the CGU's net assets with their respective recoverable amounts based on value in use for 7 of the 18 stores. This value in use of $791 [November 2, 2019 – $1,613] was determined based on management's best estimate of expected future cash flows from use over the remaining lease terms. This determination considered historical experience as well as current economic conditions, including the expected reopening date and the timeframe to foot traffic recovery in those location, and was then discounted using a pre-tax discount rate of 13.0% for the first quarter of 2020 [November 2, 2019 – 11.9%].

Depreciation and amortization expenses are broken down as follows:

	For the three months ended October 31, 2020				For the nine months ended October 31, 2020			
	Stores permanently closed $	**Stores that remain open $**	**Head office $**	**Total $**	**Stores permanently closed $**	**Stores that remain open $**	**Head office $**	**Total $**
Canada	6	170	250	426	2,246	1,214	873	4,333
US	—	—	—	—	330	—	—	330
	6	170	250	426	2,576	1,214	873	4,663

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Depreciation expense, and impairment losses related to stores that remain open are reported in the consolidated statement of income (loss) and comprehensive income (loss) under Selling, general and administration expenses (Note 9). Impairment losses related to stores that were permanently closed as a result of the Company's Restructuring Plan are reported in Restructuring plan activities, net (Note 10).

For the three and nine-month periods ended November 2, 2019, the depreciation expense was $1,313 and $3,997 respectively; with $3,444 recorded in the Canada segment, $164 recorded in the U.S. segment, and $389 recorded in corporate selling, general and administration expenses.

For Right-of-use assets, for the three and nine-month periods ended November 2, 2019, the depreciation expense was $2,938 and $9,153, respectively; with $7,538 recorded in the Canada segment, and $1,615 recorded in the U.S. segment.

7. LIABILITIES SUBJECT TO COMPROMISE

As a result of the Initial Order obtained on July 8, 2020 and subsequent amendments (Note 1), the payment of liabilities owing as of July 8, 2020 is stayed, and the outstanding liabilities, as well as any additional outstanding claims by creditors are subject to compromise pursuant to a plan of arrangement that is expected to be presented to creditors. Obligations for goods and services provided to the Company after the filing date of July 8, 2020 are discharged based on negotiated terms and conditions.

Liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims or other events.

	Estimate for allowed claims $	**Trade and other payables $**	**Severance Costs $**	**Liabilities subject to compromise $**

Balance as at February 1, 2020 and May 2, 2020	—	—	—	—
Reclassification of trade and other payables	—	21,202	—	21,202
Additions	42,878	—	4,940	47,818
Balance as at August 1, 2020	42,878	21,202	4,940	69,020
Additions	16,937	419	—	17,356
Reversals	(10,227)	(3,380)	(407)	(14,014)
Effect of foreign currency exchange	(378)	(331)	—	(709)
Balance as at October 31, 2020	**49,210**	**17,910**	**4,533**	**71,653**

As a result of the termination of leases pursuant to the Restructuring Plan in the three and nine-month periods ended October 31, 2020, the Company has recorded an estimate for allowed claim in the amount of $6.7 million and $49.6 million, respectively, in Restructuring plan activities, net in the unaudited interim consolidated statement of income (loss) (Note 10). The estimate for the allowed claim is based on the Company's best estimate and is determined based on the total undiscounted lease liability offset by an estimate of the losses that affected landlords will be able to successfully mitigate, informed by proofs of claim submitted by creditors. This provision is subject to significant estimation uncertainty, as proceedings are in a preliminary stage. Changes to the provision in future periods may be material and will be recorded through earnings.

8. SHARE CAPITAL

Authorized

An unlimited number of common shares.

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Issued and outstanding

	October 31, 2020 $	February 1, 2020 $
Share Capital - 26,216,560 Common shares (February 1, 2020 - 26,086,162)	**113,139**	112,843

During the three and nine-month periods ended October 31, 2020, nil and 4,000 stock options, respectively were exercised for common shares for cash proceeds of nil and $3, respectively [November 2, 2019 – 12,000 and 12,000 stock options, respectively, for cash proceeds of $9 and $9, respectively].

In addition, during the three and nine-month periods ended October 31, 2020, 8,431 and 126,398 common shares, respectively [November 2, 2019 – 6,877 and 55,845 common shares respectively] were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of $20 and $292, net of tax [November 2, 2019 — $30 and $303, net of tax, respectively] and a reduction in contributed surplus of $39 and $593, respectively [November 2, 2019 — $67 and $628, respectively].

Stock-based compensation

As at October 31, 2020, 1,088,729 [November 2, 2019, 1,744,529] common shares remain available for issuance under the 2015 Omnibus Plan.

No stock options were granted during the three and nine-month periods ended October 31, 2020 and November 2, 2019.

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

	For the nine months ended			
	October 31, 2020		November 2, 2019	
	Options outstanding #	Weighted average exercise price $	Options outstanding #	Weighted average exercise price $
Outstanding, beginning of year	**76,350**	**8.96**	137,540	7.17
Issued	—	—	—	—
Exercised	**(4,000)**	**0.77**	(12,000)	0.77
Forfeitures	—	—	(35,001)	6.77
Outstanding, end of period	**72,350**	**9.41**	90,539	8.17
Exercisable, end of period	**72,350**	**9.41**	89,120	8.07

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

	For the nine months ended			
	October 31, 2020		November 2, 2019	
	RSUs outstanding #	Weighted average fair value per unit (1) $	RSUs outstanding #	Weighted average fair value per unit (1) $

Outstanding, beginning of year	**749,522**	**2.17**	270,976	5.26
Granted	**1,177,222**	**1.44**	804,710	1.93
Forfeitures	**(313,229)**	**(1.67)**	(112,746)	3.46
Vested	**(126,398)**	**(2.28)**	(78,345)	5.52
Vested, withheld for tax	**(128,760)**	**(2.31)**	(59,134)	5.37
Outstanding, end of period	**1,358,357**	**1.63**	825,461	2.22

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

During the three and nine-month periods ended October 31, 2020, the Company recognized a stock-based compensation expense of $198 and $778, respectively [November 2, 2019 — $256 and $526].

9. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended		For the nine months ended	
	October 31, 2020 $	November 2, 2019 $	October 31, 2020 $	November 2, 2019 $
Wages, salaries and employee benefits	**3,496**	15,690	**15,879**	46,999
Depreciation of property and equipment	**237**	1,313	**1,781**	3,997
Amortization of intangible assets	**420**	517	**1,503**	1,372
Amortization right-of-use asset	**189**	2,938	**2,882**	9,153
Impairment of property and equipment and right-of-use assets	**—**	2,051	**2,561**	7,076
Loss on disposal of property and equipment	**—**	—	**—**	22
Marketing expenses	**1,209**	1,618	**2,848**	3,974
IT expenses	**736**	1,080	**2,190**	3,059
Credit card fees	**547**	618	**1,736**	1,839
Professional fees	**611**	377	**1,682**	1,256
Stores supplies	**178**	1,862	**1,254**	3,487
Stock-based compensation	**198**	256	**778**	526
Government emergency wage subsidy	**(1,446)**	—	**(3,445)**	—
Other selling, general and administration	**745**	2,350	**4,234**	7,494
	7,120	30,670	**35,883**	90,254

10. RESTRUCTURING PLAN ACTIVITIES, NET

During the three and nine-month periods ended October 31, 2020, the Company, in connection with the termination or modification of leases pursuant to the Restructuring Plan, reduced its lease liabilities by $20.4 million and $75.1 million, respectively, resulting in a gain on the modification of lease liabilities.

	For the three months ended	For the nine months ended
	October 31, 2020 $	October 31, 2020 $
Gain on modification of lease liabilities	(20,385)	(75,121)
Estimate for allowed claim	6,710	49,588
Loss on disposal of property and equipment and right-of-use assets	18	1,560
Impairment of property and equipment and right-of-use assets	—	37,399
Severance costs	(337)	4,832
Interest and penalties related to unpaid occupancy charges	146	1,147
Professional fees	856	1,829
Store closure related costs	2,249	2,783
Restructuring plan activities, net	(10,743)	24,017

11. INCOME TAXES

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

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

	For the three months ended				For the nine months ended			
	October 31, 2020		November 2, 2019		October 31, 2020		November 2, 2019	
	%	$	%	$	%	$	%	$

Income tax provision (recovery) — statutory rate	**26.8**	**3,878**	26.8	(2,902)	**26.8**	**(7,694)**	26.8	(6,832)
Non-deductible items	**0.4**	**54**	(0.7)	72	**(0.6)**	**180**	(0.6)	148
Unrecognized deferred income tax assets	**(27.2)**	**(3,932)**	(26.1)	2,830	**(26.2)**	**7,514**	(26.2)	6,684
Income tax provision (recovery) — effective tax rate	—	—	—	—	**—**	**—**	—	—

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12. EARNINGS PER SHARE

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

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

	For the three months ended		For the nine months ended	
	October 31, 2020 $	**November 2, 2019 $**	**October 31, 2020 $**	**November 2, 2019 $**
Net income (loss) for basic EPS	**14,467**	(10,830)	**(28,711)**	(25,494)
Weighted average number of shares outstanding:				
Basic	**26,214,573**	26,068,435	**26,143,963**	26,048,239
Fully diluted	**26,767,470**	26,068,435	**26,143,963**	26,048,239
Net income (loss) per share:				
Basic	**0.55**	(0.42)	**(1.10)**	(0.98)
Fully diluted	**0.54**	(0.42)	**(1.10)**	(0.98)

13. RELATED PARTY DISCLOSURES

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

During the three and nine-month periods ended October 31, 2020, the Company purchased merchandise for resale amounting to $50 and $76, respectively [November 2, 2019 – $33 and $48, respectively] and provided infrastructure and administrative services of $5 and $80, respectively [November 2, 2019 - $163 and $222, respectively] to a company controlled by one of its executive employees.

The Company also spent nil and $53, respectively [November 2, 2019 — $96 and $164, respectively] for consulting services from a related party of the principal shareholder. As well during the three-month period ended November 2, 2019, the Company purchased a perpetual license rights to a reporting data model and associated intellectual property for $200 from a related party of the principal shareholder.

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

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

During the first quarter of 2020, the loan of $2.0 million along with accrued interest of $45 were fully repaid.

14. SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has concluded that it has two reportable segments, Canada and the U.S., that derive their revenues from the online, retail and wholesale sale of tea, tea accessories and food and beverages. The Company's Interim Chief Executive Officer (the chief operating decision maker or "CODM") makes decisions about resources allocation and assesses performance at the country level, and for which discrete financial information is available.

The Company derives revenue from the following products:

	For the three months ended		For the nine months ended	
	October 31, 2020 $	**November 2, 2019 $**	**October 31, 2020 $**	**November 2, 2019 $**
Tea	**22,989**	30,038	**69,004**	92,770
Tea accessories	**3,183**	6,199	**10,868**	20,482

Food and beverages	**53**	3,256	**1,625**	9,673
	26,225	39,493	**81,497**	122,925

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

	October 31, 2020 $	**February 1, 2020 $**
Canada	**8,032**	52,116
US	**-**	7,042
Total	**8,032**	59,158

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

	For the three months ended October 31, 2020			**For the nine months ended October 31, 2020**		
	Canada $	**US $**	**Consolidated $**	**Canada $**	**US $**	**Consolidated $**
Sales	**20,280**	**5,945**	**26,225**	**61,276**	**20,221**	**81,497**
Cost of sales	**12,164**	**3,235**	**15,399**	**36,812**	**10,597**	**47,409**
Gross profit	**8,116**	**2,710**	**10,826**	**24,464**	**9,624**	**34,088**
Selling, general and administration expenses (allocated)	**2,765**	**487**	**3,252**	**14,173**	**3,845**	**18,018**
Impairment of property and equipment and right-of-use assets	**—**	**—**	**—**	**2,561**	**—**	**2,561**
Results from operating activities before corporate expenses	**5,351**	**2,223**	**7,574**	**7,730**	**5,779**	**13,509**
Selling, general and administration expenses (non-allocated)			**3,868**			**15,304**
Restructuring plan activities, net			**(10,743)**			**24,017**
Results from operating activities			**14,449**			**(25,812)**
Finance costs			**35**			**3,260**
Finance income			**(53)**			**(361)**
Net Income (loss) before income taxes			**14,467**			**(28,711)**

	For the three months ended November 2, 2019			**For the nine months ended November 2, 2019**		
	Canada $	**US $**	**Consolidated $**	**Canada $**	**US $**	**Consolidated $**
Sales	30,909	8,584	39,493	95,439	27,486	122,925
Cost of sales	14,060	4,079	18,139	42,099	11,331	53,430
Gross profit	16,849	4,505	21,354	53,340	16,155	69,495
Selling, general and administration expenses (allocated)	16,057	4,433	20,490	45,628	13,712	59,340
Impairment of property and equipment and right-of-use assets	949	1,102	2,051	3,429	3,647	7,076
Results from operating activities before corporate expenses	(157)	(1,030)	(1,187)	4,283	(1,204)	3,079
Selling, general and administration expenses (non-allocated)			8,129			23,838
Results from operating activities			(9,316)			(20,759)
Finance costs			1,699			5,305
Finance income			(185)			(570)
Net Loss before income taxes			(10,830)			(25,494)

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15. FINANCIAL RISK MANAGEMENT

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

Currency Risk — Foreign Exchange Risk

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

Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net income (loss) in the amount of $587.

The Company’s foreign exchange exposure is as follows:

	October 31, 2020	**February 1, 2020**

	US$	US$
Cash	**470**	1,928
Accounts and other receivables	**889**	455
Prepaid expenses and deposits	**3,675**	323
Trade and other payables	**397**	6,090
Liabilities subject to compromise	**16,385**	-

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

The Company had no foreign exchange contracts outstanding as at October 31, 2020.

Market Risk — Interest Rate Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. On July 8, 2020, the Company announced it was implementing the Restructuring Plan in order to stabilize its operations and eventually generate free cash-flow to sustain the business. Considering the Company does not have access to financing and needs to operate the business and fund its restructuring activities, the Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will have sufficient liquidity to meet liabilities as they become due. The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. The Company is exposed to this risk mainly in respect of its trade and other payables, lease and purchase obligations.

As at October 31, 2020, the Company had $21.9 million in cash.

The Company expects to finance its working capital needs and investments in infrastructure through cash flows from operations and cash on hand. At October 31, 2020, Trade and other payables amounted to $3.6 million (February 1, 2020 - $20.8 million), liabilities subject to compromise amounted to $71.7 million and purchase obligations amounted to $12.3 million (February 1, 2020 - $11.5 million). As part of its Restructuring Plan, Liabilities subject to compromise, as disclosed in Note 7, are subject to a plan of arrangement to be proposed by the Company to its creditors. All trade and other payables from July 9, 2020 onwards are expected to be paid according to negotiated vendor terms.

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

Credit Risk

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

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation in the consolidated statement of income (loss) with respect to the Company's Restructuring Plan.

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

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

Forward-Looking Statements

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

While we believe these expectations and projections are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the risk factors listed under Item 1A. Risk Factors, as well as other cautionary language in Form 10-K filed with the SEC on June 16, 2020, as well as the additional Risk Factors set out in our Form 10-Q filed with the SEC on July 31, 2020, as well as the additional Risk Factor set out in our Form 10-Q filed with the SEC on September 21, 2020.

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

- ☐ *The effects of our Restructuring Plan pursuant to the CCAA in Canada and recognition of the CCAA proceedings in the United States under Chapter 15 of the United States Bankruptcy Code;*
- ☐ *Our ability to successfully pivot our business to a digital-first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees that are instrumental to growing our online and wholesale channel businesses;*
- ☐ *The duration and impact of the global COVID-19 pandemic, which has disrupted the Company's business and has adversely affected the Company's financial condition and operating results, and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners;*
- ☐ *Our ability to avoid the delisting of the Company's common stock by Nasdaq due to the Restructuring Plan or our inability to maintain compliance with Nasdaq listing requirements;*
- ☐ *Our ability to manage significant changes to our leadership team;*
- ☐ *Our ability to maintain and enhance our brand image;*
- ☐ *Significant competition within our industry;*
- ☐ *The effect of a decrease in customer traffic where our stores are located;*
- ☐ *Our ability to attract and retain employees that embody our entrepreneurial culture;*
- ☐ *Changes in consumer preferences and economic conditions affecting disposable income;*
- ☐ *Our ability to source, develop and market new varieties of teas, tea accessories, food and beverages;*
- ☐ *Our reliance upon the continued retention of key personnel;*

- ☐ *The impact from real or perceived quality or safety issues with our teas, tea accessories, food and beverages;*
- ☐ *Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, in particular in light of supply chain disruption due to the COVID-19 pandemic;*
- ☐ *The impact of weather conditions, natural disasters and man-made disasters on the supply and price of tea;*
- ☐ *Actual or attempted breaches of data security;*
- ☐ *The costs of protecting and enforcing our intellectual property rights and defending against intellectual property claims brought by others;*
- ☐ *Fluctuations in exchange rates; and*
- ☐ *The seasonality of our business.*

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

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

Accounting Periods

All references to "Fiscal 2020" are to the Company's fiscal year ending January 30, 2021. All references to "Fiscal 2019" are to the Company's fiscal year ended February 1, 2020.

The Company's fiscal year ends on the Saturday closest to the end of January, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2019 and 2020 both cover a 52-week period.

Overview

We are a branded retailer and growing mass wholesaler of specialty tea, offering a differentiated selection of proprietary loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts and accessories through our e-commerce platform at www.davidstea.com and in 18 Company-owned and operated retail stores in Canada. A selection of DAVIDsTEA products is also available in more than 2,500 grocery stores and pharmacies across Canada. The Company is headquartered in Montréal, Canada.

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

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

On July 8, 2020, the Company announced that it was implementing the Restructuring Plan under the CCAA in order to accelerate its transition to 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 at www.davidstea.com and its wholesale distribution channel, through which it sells a selection of DAVIDsTEA products in grocery stores and pharmacies across Canada. Following a careful review of available options to stem the losses from its brick-and-mortar footprint, the Company's management and Board of Directors determined that 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 obtained the Initial Order pursuant to the CCAA from the Québec Superior Court in order to implement the Restructuring Plan. Among other things, the Initial Order provided for the appointment of PwC as Monitor in the CCAA proceedings.

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

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

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

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

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

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

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

Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us and may pose risks and challenges, as discussed in the "Risk Factors" section under "Item 1A. Risk Factors" of this Form 10-Q.

How We Assess Our Performance

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

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

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

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

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

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

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

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

We present Adjusted selling, general and administration expenses as a supplemental measure because we believe it facilitates a comparative assessment of our selling, general and administration expenses under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Form 10-Q (the "MD&A").

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

We present Adjusted results from operating activities as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure in our MD&A.

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

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

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

Selected Operating and Financial Highlights

Results of Operations

Our financial results for the third quarter include the impact of our Restructuring Plan which began on July 8, 2020 and July 9, 2020 when we obtained the Initial Order pursuant to the CCAA from the Québec Superior Court and when we received protection from creditor action against our assets in the United States from the United States Bankruptcy Court for the District of Delaware, respectively. 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 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. Our retail footprint now includes 18 stores in Canada which we reopened on August 21, 2020.

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Sales during the third quarter of $26.2 million declined by $13.3 million or 33.6% over the prior year quarter due to the reduction in our retail store footprint. Adjusted EBITDA in the third quarter of Fiscal 2020 was $3.3 million compared to negative $2.2 million in the prior year quarter.

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

	For the three months ended		For the nine months ended	
	October 31, 2020	**November 2, 2019**	**October 31, 2020**	**November 2, 2019**
Consolidated statement of income (loss) data:				
Sales	**$ 26,225**	$ 39,493	**$ 81,497**	$ 122,925
Cost of sales	**15,399**	18,139	**47,409**	53,430
Gross profit	**10,826**	21,354	**34,088**	69,495
Selling, general and administration expenses	**7,120**	30,670	**35,883**	90,254
Restructuring plan activities, net	**(10,743)**	—	**24,017**	—
Results from operating activities	**14,449**	(9,316)	**(25,812)**	(20,759)
Finance costs	**35**	1,699	**3,260**	5,305
Finance income	**(53)**	(185)	**(361)**	(570)
Net income (loss)	**$ 14,467**	$ (10,830)	**$ (28,711)**	$ (25,494)
Percentage of sales:				
Sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**58.7%**	45.9%	**58.2%**	43.5%
Gross profit	**41.3%**	54.1%	**41.8%**	56.5%
Selling, general and administration expenses	**27.1%**	77.7%	**44.0%**	73.4%
Restructuring plan activities, net	(41.0)%	0.0%	**29.5%**	0.0%
Results from operating activities	**55.1%**	(23.6)%	(31.7)%	(16.9)%
Finance costs	**0.1%**	4.3%	**4.0%**	4.3%
Finance income	(0.2)%	(0.5)%	(0.4)%	(0.5)%
Net income (loss)	**55.2%**	(27.4)%	(35.2)%	(20.7)%
Other financial and operations data:				
Adjusted EBITDA (1)	**$ 3,304**	$ (2,241)	$ 4,265	$ 1,387
Adjusted EBITDA as a percentage of sales	**12.6%**	(5.7) %	**5.2%**	1.1%
Adjusted SG&A (1)	**$ 8,566**	$ 28,619	**$ 36,767**	$ 83,178
Adjusted results from operating activities (1)	**$ 2,260**	$ (7,265)	**$ (2,679)**	$ (13,661)
Adjusted net income (loss) (1)	**$ 2,278**	$ (8,779)	**$ (5,578)**	$ (18,396)

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

Non-IFRS financial measures

The Company uses certain non-IFRS financial measures for purposes of comparison to prior periods, to prepare annual operating budgets, and for the development of future projections. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS financial measures to provide supplemental measures of our operating performance and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS financial measures. These non-IFRS financial measures include; Adjusted SG&A, Adjusted results from operating activities, Adjusted net income (loss), Adjusted EBITDA and Adjusted fully diluted net income (loss) per common share.

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

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

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

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

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

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

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

	For the three months ended		For the nine months ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Selling, general and administration expenses	**$ 7,120**	$ 30,670	**$ 35,883**	$ 90,254
Impairment of property and equipment and right-of-use assets	**—**	(2,051)	**(2,561)**	(7,076)
Government emergency wage subsidy	**1,446**	—	**3,445**	—
Adjusted selling, general and administration expenses	**$ 8,566**	$ 28,619	**$ 36,767**	$ 83,178

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

	For the three months ended		For the nine months ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Results from operating activities	**$ 14,449**	$ (9,316)	**$ (25,812)**	$ (20,759)
Impairment of property and equipment and right-of-use assets	**—**	2,051	**2,561**	7,076
Loss on disposal of property and equipment and right-of-use assets	**—**	—	**—**	22
Restructuring plan activities, net	**(10,743)**	—	**24,017**	—
Government emergency wage subsidy	**(1,446)**	—	**(3,445)**	—
Adjusted results from operating activities	**$ 2,260**	$ (7,265)	**$ (2,679)**	$ (13,661)

Reconciliation of Net income (loss) to Adjusted EBITDA

	For the three months ended		For the nine months ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net income (loss)	**$ 14,467**	$ (10,830)	**$ (28,711)**	$ (25,494)
Finance costs	**35**	1,699	**3,260**	5,305
Finance income	**(53)**	(185)	**(361)**	(570)
Depreciation and amortization	**846**	4,768	**6,166**	14,522
EBITDA	**$ 15,295**	$ (4,548)	**$ (19,646)**	$ (6,237)
Additional adjustments :				
Stock-based compensation expense	**198**	256	**778**	526
Impairment of property and equipment and right-of-use assets	**—**	2,051	**2,561**	7,076
Loss on disposal of property and equipment	**—**	—	**—**	22
Restructuring plan activities, net	**(10,743)**	**—**	**24,017**	**—**
Government emergency wage subsidy	**(1,446)**	—	**(3,445)**	—
Adjusted EBITDA	**$ 3,304**	$ (2,241)	**$ 4,265**	$ 1,387

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

	For the three months ended		For the nine months ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net income (loss)	**$ 14,467**	$ (10,830)	**$ (28,711)**	$ (25,494)
Impairment of property and equipment and right-of-use assets	**—**	2,051	**2,561**	7,076
Loss on disposal of property and equipment	**—**	—	**—**	22
Restructuring plan activities, net	**(10,743)**	—	**24,017**	—
Government emergency wage subsidy	**(1,446)**	—	**(3,445)**	—
Adjusted Net income (loss)	**$ 2,278**	$ (8,779)	**$ (5,578)**	$ (18,396)

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

For the three months ended		For the nine months ended	
October 31,	November	October 31,	November

		2020		2, 2019		2020		2, 2019
Weighted average number of shares outstanding, fully diluted		**26,767,470**		26,068,435		**26,143,963**		26,048,239
Net income (loss)	**$**	**14,467**		(10,830)	**$**	**(28,711)**	$	(25,494)
Adjusted net income (loss)	**$**	**2,278**		(8,779)	**$**	**(5,578)**	$	(18,396)
Net income (loss) per share, fully diluted	**$**	**0.54**		(0.42)	**$**	**(1.10)**	$	(0.98)
Adjusted Net income (loss) per share, fully diluted	**$**	**0.09**		(0.34)	**$**	**(0.21)**	$	(0.71)

Three Months Ended October 31, 2020 compared to Three Months Ended November 2, 2019

Sales. Sales for the three months ended October 31, 2020 decreased 33.6%, or $13.3 million, to $26.2 million from $39.5 million in the prior year quarter. On March 17, 2020, in response to the COVID-19 pandemic, the Company temporarily closed all its retail stores in Canada and the United States, and subsequently, as part of its formal Restructuring Plan, exited all of its brick and mortar stores except for 18 Canadian stores which were reopened on August 21, 2020. Accordingly, brick and mortar sales for the quarter declined when compared to the prior year quarter by $26.4 million or 86.5% to $4.1 million. Sales from e-commerce and wholesale channels increased by $13.1 million or 145.5% to $22.1 million, from $9.0 million in the prior year quarter. E-commerce and wholesale sales represented 84.3% of sales compared to 22.8% of sales in the prior year quarter.

Gross profit. Gross profit of $10.8 million for the three months ended October 31, 2020 decreased by $10.5 million or 49.3% from the prior year quarter due primarily to a decline in sales during the period. As the Company pivots to a digital-first strategy, the cost of delivery and distribution that is included in arriving at gross profit will compare unfavorably to prior periods that were predominantly focused on retail sales distribution. The significant increase in e-commerce sales resulted in an increase of $4.2 million in delivery and distribution costs, thereby negatively impacting gross profit percentage. As a result, gross profit as a percentage of sales declined to 41.3% for the three-month period ended October 31, 2020 from 54.1% in the prior year quarter. We expect that the increased cost to deliver online purchases will be less than the selling expenses incurred in a brick and mortar environment that have been historically included as part of Selling, general and administration expenses.

Selling, general and administration expenses. Selling, general and administration expenses decreased by $23.6 million or 76.8% to $7.1 million in the three months ended October 31, 2020 from the prior year quarter. Excluding the impact of the $1.4 million wage subsidy received under the Canadian government COVID-19 Economic Response Plan in Fiscal 2020, and the impact in Fiscal 2019 of the impairment of property and equipment and right-of use assets amounting to $2.1 million, Adjusted SG&A decreased by $20.1 million. In connection with our Restructuring Plan, we terminated the leases for all of our stores in North America except for 18 Canadian stores which reopened on August 21, 2020. As a result, wages, salaries and employee benefits were reduced by $12.2 million, and we realized a reduction of $3.8 million in amortization expenses due to a lower right-of-use asset value at the beginning of the period. Adjusted SG&A as a percentage of sales in the quarter decreased to 32.7% from 72.5% in the prior year quarter.

Results from operating activities. Income from operating activities was $14.4 million compared to a loss of $9.3 million in the prior year quarter. Excluding the impact of the Restructuring Plan announced on July 8, 2020, the wage subsidy received from the Canadian government under the COVID-19 Economic Response Plan, the impact of the impairment of property and equipment and right-of-use assets and the loss on disposal of property and equipment, Adjusted results from operating activities amounted to $2.3 million in the three-month period ended October 31, 2020 compared to a loss of $7.3 million in the prior year quarter. This resulting improvement of $9.6 million is explained by a reduction in wages, salaries and employee benefits from stores and head office, amounting to $12.2 million, a reduction of $3.8 million in amortization expense due to a lower right-of-use asset value at the beginning of the period, and a reduction of other brick and mortar selling expenses of $3.5 million, partially offset by the reduction of gross profit of $10.5 million.

Finance costs. Finance costs amounted to almost nil in the three months ended October 31, 2020, a decrease of $1.7 million from the prior year quarter. The interest expense relates to lease liabilities and has decreased slightly from the prior year quarter.

Finance income. Finance income of $0.1 million is derived mainly from interest on cash on hand and has decreased slightly from the prior year quarter.

EBITDA. EBITDA was $15.3 million in the quarter ended October 31, 2020 compared to a negative $4.5 million in the prior year quarter, representing an increase of $19.8 million over the prior year quarter. Adjusted EBITDA for the quarter ended October 31, 2020, which excludes the impact of stock-based compensation expense, Restructuring plan activities, the subsidy received from the Canadian government under the COVID-19 Economic Response Plan, and the impairment of property and equipment and right-of-use assets amounted to $3.3 million compared to negative $2.2 million in the prior year quarter. As the Company pivots to a digital-first strategy, we are seeing an improvement in EBITDA driven from our focus on e-commerce and wholesale channels. In this quarter, EBITDA also improved as a result of a reduced general and administrative infrastructure to support the on-going business.

Net income (loss). Net income was $14.5 million in the quarter ended October 31, 2020 compared to a Net loss of $10.8 million in the prior year quarter. Adjusted net loss, which excludes the Restructuring plan activities, the subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the impairment of property and equipment and right-of-use assets amounted to $2.3 million compared to a loss of $8.8 million in the prior year quarter. This $11.1 million improvement is driven by the same reasons mentioned above in “Results from operating activities”.

Fully diluted income (loss) per common share. Fully diluted income per common share was $0.54 compared to a loss of $0.42 in the third quarter of Fiscal 2019. Adjusted fully diluted income per common share, which is adjusted net income (loss) on a fully diluted weighted average shares outstanding basis, was $0.09 per share compared to a loss of $0.34 per share.

Nine Months Ended October 31, 2020 compared to Nine Months Ended November 2, 2019

Sales. Sales for the nine months ended October 31, 2020 decreased 33.7%, or $41.4 million, to $81.5 million from $122.9 million in the same period in the prior year. On March 17, 2020, in response to the COVID-19 pandemic, the Company announced the temporary closures of all its retail stores in Canada and the United States, and subsequently, as part of its Restructuring Plan, exited all of its brick and mortar stores except for 18 Canadian stores which were reopened on August 21, 2020. Accordingly, brick and mortar sales declined by $78.9 million or 80.3% when compared to the same period in the prior year. Sales from our e-commerce and wholesale channels increased $37.5 million or 152.0% to $62.1 million, from $24.7 million in the same period in prior year as we shifted to a digital first strategy to address consumers changing shopping habits. For the nine-month period ended October 31, 2020, e-commerce and wholesale sales represented 76.2% of total sales as opposed to 20.1% in the same period in the prior year.

Gross profit. Gross profit of $34.1 million for the nine-month period ended October 31, 2020 decreased by $35.4 million or 50.9% from the same period of the prior year due primarily to a decline in sales during the period. Gross profit as a percentage of sales declined to 41.8% for the nine-month period ended October 31, 2020 from 56.5% in the same period in the prior year. As the Company pivots to a digital first strategy, the cost of delivery and distribution that is included in arriving at gross profit will compare unfavorably to prior periods that were predominantly focused on retail sales distribution. The significant increase in e-commerce sales during the period ended October 31, 2020 resulted in an increase of $9.3 million in delivery and distribution costs. Our margins were also impacted by an increase in inventory obsolescence of $2.6 million in Fiscal 2020 caused by the consolidation of merchandise from our closed retail stores during the first quarter and the permanent closure of the majority of our stores.

Selling, general and administration expenses. SG&A decreased by $54.4 million or 60.2%, to $35.9 million in the nine months ended October 31, 2020 from the same period in the prior year. Excluding the impact of the impairment of property and equipment and right-of-use assets, and the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan in the nine-month period ended October 31, 2020 which amounted to $0.9 million, Adjusted SG&A decreased by $46.4 million for the nine months ended October 31, 2020. This is mostly explained by the temporary closure of our stores effective March 17, 2020 and the reopening of 18 stores on August 21, 2020. As a result, wages, salaries and employee benefits were reduced by $31.1 million and we realized a reduction of $8.5 million in amortization expense due to a lower right-of-use asset value at the beginning of Fiscal 2020. As a percentage of sales, Adjusted SG&A decreased to 45.1% from 67.7% due to lower selling expenses resulting from the now permanent closure of our 206 stores effective March 17, 2020 and the reopening of 18 stores on August 21, 2020.

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Results from operating activities. Loss from operating activities was $25.8 million compared to a loss of $20.8 million in the same period in Fiscal 2019. Excluding the impact of the impairment of property and equipment and right-of-use assets, the Restructuring plan activities, the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the loss on disposal of property and equipment, Adjusted results from operating activities was a loss of $2.7 million compared to a loss of $13.7 million in the same period in the prior year. This resulting improvement of $11.0 million is explained by reduction in wages, salaries and employee benefits, from stores and head office, amounting to $31.1 million and an $8.5 million reduction in amortization expense due to a lower right-of-use asset value at the beginning of Fiscal 2020, and a reduction of other selling expenses, partially offset by the reduction of gross profit of $35.4 million.

Finance costs. Finance costs amounted to $3.3 million in the nine-month period ended October 31, 2020, a decrease of $2.0 million from the prior year quarter. The interest expense relates to lease liabilities and has decreased from the prior year period due to the store closures.

Finance income. Finance income of $0.4 million is derived mainly from interest on cash on hand and has decreased slightly from the prior year period.

*EBITDA.*EBITDA was negative $19.6 million in the nine-month period ended October 31, 2020 compared to negative $6.2 million in the same period in the prior year, representing a decrease of $13.4 million over Fiscal 2019. Adjusted EBITDA for the nine months ended October 31, 2020, which excludes the impact of stock-based compensation expense, the impairment of property and equipment and right-of-use assets, the Restructuring plan activities, the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the loss on disposal of property and equipment amounted to $4.3 million compared to $1.4 million in the same period in the prior year. The increase in Adjusted EBITDA, of $2.9 million, is an outcome of the reduction in SG&A that was partially offset by the decline in gross profit.

Net loss. Net loss was $28.7 million in the nine months ended October 31, 2020 compared to a net loss of $25.5 million in the same period in prior year. Adjusted net loss, which excludes the impact from the impairment of property and equipment and right-of-use assets, the Restructuring plan activities, the subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and loss on disposal of property and equipment was $5.6 million compared to $18.4 million in the same period in the prior year. This $12.8 million improvement is driven by the same reasons mentioned above in Results from operating activities.

Fully diluted loss per common share. Fully diluted loss per common share was negative $1.10 compared to negative $0.98 in the nine months ended October 31, 2020. Adjusted fully diluted loss per common share, which is adjusted net loss on a fully diluted weighted average shares outstanding basis, was negative $0.21 per share compared to negative $0.71 per share.

Liquidity and Capital Resources

As at October 31, 2020 we had $21.9 million of cash primarily held by major Canadian financial institutions. Working capital was negative $12.2 million as at October 31, 2020, compared to $36.4 million as at February 1, 2020.

Our primary source of liquidity is cash on hand as we have no access to any form of debt financing. Our primary cash needs are to finance working capital and capital expenditures in connection with enhancing the functions and features of our online store. Our working capital requirements are for the purchase of inventory and payment of payroll and other operating costs. Furthermore, in light of implementing the Restructuring Plan, the Company expects to use cash on hand to pay for professional fees and for the settlement of obligations upon acceptance, if any, of a plan of arrangement that will be presented to creditors. Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. We fund our capital expenditures and working capital requirements from a combination of cash on hand and cash provided by operating activities.

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Cash Flow

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

	For the three months ended		For the nine months ended	
	October 31, 2020	**November 2, 2019**	**October 31, 2020**	**November 2, 2019**
Cash flows provided by (used in) :				
Operating activities	**$ (12,016)**	$ 4,786	**$ (19,896)**	$ 8,229
Financing activities	**(250)**	(5,711)	**(5,821)**	(17,333)
Investing activities	**(94)**	(756)	**1,304**	(4,926)
Decrease in cash	**$ (12,360)**	$ (1,681)	**$ (24,413)**	$ (14,030)

Three Months Ended October 31, 2020 compared to Three Months Ended November 2, 2019

Cash flows provided by (used in) Operating activities. Net cash flows used in Operating activities during the quarter ended October 31, 2020 amounted to $12.0 million and represented a change of $16.8 million from the prior year quarter. The change is primarily due to the impact of the Restructuring Plan, wherein cash was used to make vendor deposits for both services and inventory related purchases.

Cash flows used in Financing activities. Net cash flows used in Financing activities of $0.3 million compares to $5.7 million used in the prior year quarter. This net reduction in use of cash was primarily due to the Restructuring Plan and the termination of our store lease agreements.

Cash flows used in Investing activities. Cash flows used in Investing activities decreased from $0.8 million to $0.1 million for the three months ended October 31, 2020. The decrease is primarily due to the capital expenditures and the loan advance that was made in the prior year quarter. Capital expenditures decreased by $0.4 million, to $0.1 million for the three months ended October 31, 2020, from $0.5 million in the prior year quarter. This decrease was primarily due to lower investment in software enhancements.

Nine Months Ended October 31, 2020 compared to Nine Months Ended November 2, 2019

Cash flows (used in) provided by Operating activities. Net cash flows used in Operating activities during the nine-month period ended October 31, 2020 amounted to $19.9 million and represented a change of $28.1 million from the prior year. The change is primarily due to the impact of our Restructuring PlanA, wherein we have used cash to make vendor deposits for both services and purchases of inventory related goods.

Cash flows used in Financing activities. Net cash flows used in financing activities of $5.8 million during the nine-month period ended October 31, 2020 represents a reduction of $11.5 million compared to the prior year corresponding period and due primarily to the non-payment of lease obligations from April 1, 2020 to July 8, 2020 and the termination of our store lease agreements.

Cash flows provided by (used in) Investing activities. Cash flows provided by investing activities of $1.3 million during the nine-month period ended October 31, 2020 increased by $6.2 million. The increase is primarily due to the receipt of cash from repayment of the loan from a Company controlled by an executive employee, partially offset by capital expenditures. Capital expenditures decreased by $2.2 million to $0.7 million for the nine-month period ended October 31, 2020, from $2.9 million in the prior year period. This decrease was primarily due to lower investment in both leasehold improvements as well as software enhancements.

Off-Balance Sheet Arrangements

We have no off-balance sheet obligations.

Contractual Obligations and Commitments

We enter into contractual obligations and commitments that require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheet, except for future purchase obligations. Given the nature of our Restructuring Plan, and as mentioned in Note 7, we anticipate that there will be significant changes to previously reported contractual obligations in future periods and when reasonably estimable, will be recorded through earnings.

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Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of financial statements requires us to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on our reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial position, changes in financial position or results of operations. Our significant accounting policies are discussed under Note 3 to our consolidated financial statements for the year ended February 1, 2020 included in our Annual Report on Form 10-K dated June 16, 2020. There have been no material changes to the critical accounting policies and estimates since February 1, 2020, other than those disclosed in Note 4 to our interim consolidated financial statements for the three and nine-month periods ended October 31, 2020.

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the foreign exchange and interest rate risk discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K dated June 16, 2020.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chairman and Interim Chief Executive Officer and Chief Financial and Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of October 31, 2020. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on an assessment of our disclosure controls and procedures, as a result of the identification of a material weakness in connection with our non-financial asset impairment testing processes identified in the close process for the fourth quarter of Fiscal 2019, as well as the material weakness identified in the Company's financial statement close process for the quarter ended November 2, 2019 related to accounting errors identified in the assessment of impairment indicators upon the adoption of IFRS 16, "*Leases*", our management concluded that, considering the significant extent of change driven largely by the implementation of our Restructuring Plan, remediation efforts continue and our disclosure controls and procedures continue to not be effective as of October 31, 2020.

Changes in Internal Control over Financial Reporting

The COVID-19 pandemic could negatively affect our internal controls over financial reporting, including our ongoing process of remediating the material weakness in our disclosure control and procedures, as a portion of our workforce is required to work remotely and standard processes are disrupted. New processes, procedures, and controls, which may increase the overall inherent risk in the business, may be required to ensure an effective control environment.

With the exception of the material weaknesses identified there were no other changes in our internal control over financial reporting during our fiscal quarter ended October 31, 2020 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Pursuant to an Order from the Québec Superior Court, there is currently a stay of all proceedings against or in respect of the Company or affecting the Company's business operations and activities, except with the leave of the Québec Superior Court, until December 15, 2020.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended February 1, 2020 filed with the SEC on June 16, 2020, Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended May 2, 2020 filed with the SEC on July 31, 2020 and Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended August 1, 2020 filed with the SEC on September 21, 2020, which could materially affect our business, financial condition or future results.

If any of such risks actually 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 the Company. Although we believe that we have identified and discussed as referred to above the key risk factors 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.

Item 2. Unregistered Sales of Equity Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits:

31.1	Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

DAVIDsTEA INC.

Date: December 15, 2020

By: */s/ Herschel Segal*
Name: Herschel Segal
Title: Chairman and Interim Chief Executive Officer

EXHIBIT 31.1

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

I, Herschel Segal, Chairman and Interim Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2020 of DAVIDsTEA Inc.;

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

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

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

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

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

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

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

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

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

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

Date: December 15, 2020

/s/ Herschel Segal
Herschel Segal
Chairman and Interim Chief Executive Officer

EXHIBIT 31.2

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

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

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2020 of DAVIDsTEA Inc.;

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

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

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

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

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

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

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

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

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

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

Date: December 15, 2020

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of DAVIDsTEA Inc. (the "Company") on Form 10-Q for the period ended October 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Herschel Segal, Chairman and Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

Date: December 15, 2020

/s/ Herschel Segal
Herschel Segal
Chairman and Interim Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report of DAVIDsTEA Inc. (the “Company”) on Form 10-Q for the period ended October 31, 2020, as filed with the Securities and Exchange Commission (the “Report”), I, Frank Zitella, Chief Financial Officer and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

Date: December 15, 2020

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