DAVIDsTEA INC.

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

For the fiscal years ended January 28, 2023 and January 29, 2022

April 28, 2023

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

DAVIDsTEA Inc. ("DAVIDsTEA" or the "Company") is a corporation incorporated under the Canada Business Corporation Acts and domiciled in Canada. DAVIDsTEA's common shares trade on the TSX Venture Exchange under the symbol "DTEA". Unless the context otherwise requires, the terms "we", "our", "us", "DAVIDsTEA" and the "Company" refer to DAVIDsTEA Inc. and its wholly-owned subsidiary, DAVIDsTEA (USA) Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of DAVIDsTEA Inc. and its subsidiary should be read in conjunction with the audited consolidated financial statements and the notes thereto of the Company as at and for the fiscal years ended January 28, 2023 and January 29, 2022 which are available on the SEDAR website at www.sedar.com. In preparing this MD&A, we have considered all information available to us up to April 28, 2023, the date of this MD&A.

All financial information contained in this MD&A and DAVIDsTEA's audited consolidated financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"), except for Non-IFRS Financial Measures and Ratios described below. All monetary amounts shown in the tables in this MD&A are in millions of Canadian dollars, except per share amounts.

The audited consolidated financial statements and this MD&A were reviewed by the Company's Audit Committee and were approved and authorized for issuance by our Board of Directors on April 28, 2023.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended January 28, 2023 ("fourth quarter of fiscal 2022") are against results for the 13 weeks ended January 29, 2022 ("fourth quarter of fiscal 2021") and all comparisons of results for the 52 weeks ended January 28, 2023 ("fiscal 2022") are against the results for the 52 weeks ended January 29, 2022 ("fiscal 2021"). The Company's fiscal year ends on the Saturday closest to January 31. This typically results in a 52-week year, but occasionally gives rise to an additional week, resulting in a 53-week year. Fiscal years are designated in the Consolidated Financial Statements and Notes thereto, as well as the remainder of this MD&A, by the calendar year in which the fiscal year commenced.

Additional information about DAVIDsTEA is available on the Company's website at www.davidstea.com and on the SEDAR website at www.sedar.com. The Company's shares are listed for trading on the TSX Venture Exchange under the symbol "DTEA".

FORWARD-LOOKING STATEMENTS

This MD&A 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". These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes", "expects", "may", "will", "should", "approximately", "intends", "plans", "estimates" or "anticipates" or, in each case, their negatives or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our strategy of transitioning to e-commerce and wholesale sales, future sales through our e-commerce and wholesale channels, our results of operations, financial condition, liquidity and prospects, including the lingering impact of the COVID-19 pandemic and geopolitical tensions on the global macroeconomic environment.

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

- Our ability to successfully pivot our business to a digital first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees who are instrumental to growing our online and wholesale channel businesses;
- Our ability to overcome changes in economic conditions, including a prolonged recessionary environment, or changes in the rate of inflation or deflation, employment rates or currency exchange rates;
- Our ability to maintain and enhance our brand image;
- Significant competition within our industry;
- Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, especially in light of potential global health risks similar to COVID-19 and continuing geopolitical uncertainty caused by acts of war and escalating aggression;
- Actual or attempted breaches of data security; and
- The seasonality of our business.

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. These statements are based upon information available to the Company as of the date of this MD&A, 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 MD&A 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 MD&A and we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this MD&A, 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 MD&A or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

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

OVERVIEW

The Company offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts in North-America through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, and in Canada through both its wholesale customers which include over 3,800 grocery stores and pharmacies, and 19 company-owned storefronts. The Company offers proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea. With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company launches seasonally driven "collections" with a mission of making tea fun and accessible to all.

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.

BUSINESS UPDATE

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

Following a careful review of available options to stem the losses generated primarily from its brick-and-mortar footprint, our management and Board of Directors determined that a formal restructuring process was the best option in the context of an increasingly challenging retail environment, further exacerbated by the COVID-19 pandemic.

On July 8, 2020, the Company announced that it was implementing a restructuring plan (the "Restructuring Plan") under the Companies' Creditors Arrangement Act (Canada) (the "CCAA") in order to accelerate its transition to predominantly an online retailer and wholesaler of high-quality tea and accessories and that during the restructuring process, the Company would continue to operate its online business through its e-commerce platform and the Amazon Marketplace as well as its wholesale distribution channel. On August 21, 2020, the Company re-opened 18 stores across Canada and permanently shuttered 164 stores in Canada and 42 stores in the United States.

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

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

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

The Company emerged from the formal restructuring process, a smaller and more invigorated organization, with a renewed sense of purpose and confidence as we continue building a high-performing, future-ready winning culture, driven by purpose. We were founded on a spirit of innovation and of embracing unconventional ideas with a desire to create a North American experience around tea. We removed the boundaries that kept tea in the cupboards of only those in-the-know. We experimented and took risks, attracted passionate employees and as customers became friends, we embraced our brand purpose; a desire to share positivity with all, and use our platform to do good - for business and for the lives of all we interact with.

Our actions are driven by the fervent desire to become the world's most innovative tea company. One that inspires greater wellness and sustainability through ethical and sustainable tea sourcing, compostable and regenerative packaging, and caring for our community. Our digital-first strategy is built to respond to consumer demand - meeting consumers where they are, driving loyalty with the ability to scale the business, without borders. We are focused on building a winning culture that is fueled by delighting consumers and driven to overcome challenging operational and market conditions. We are focused on revenue growth, attaining profitability and positive cash-flow, and with an unwavering sense of passion, purpose and commitment to our customers and our stakeholders.

On August 31, 2022, the Company announced that it had entered into an agreement with the Bank of Nova Scotia for a revolving line of credit in an amount of $15 million. The line of credit is secured by first-ranking security in favour of the Bank. In addition, Investissement Québec provided a guarantee under its "Loan Loss Program", securing 50% of the indebtedness under the line of credit.

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

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

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

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

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

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

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

Properties

Our principal executive and administrative offices are located at 5430 Ferrier Street, Mount-Royal, Québec, Canada, H4P 1M2. We currently lease one production and assembly facility located in Montréal, Québec, which we opened in July 2010. The general location, use, approximate size, and lease renewal date of our properties, none of which is owned by us, are set forth below:

Location	Use	Approximate square feet	Lease renewal date
Montréal, Québec	Executive and administrative offices	22,000	October 31, 2023
Montréal, Québec	Production and assembly facility	61,500	June 30, 2026

As of January 28, 2023, we operated 18 company-operated stores and one kiosk located in Canada consisting of approximately 15,000 gross square feet. All our stores are leased from third parties and generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses.

The following table summarizes the locations of our stores and kiosk as of January 28, 2023:

Locations in Canada	Stores	Kiosks
Alberta	3	
British Columbia	1	
Manitoba	1	
New Brunswick	1	
Ontario	5	
Québec	7	1
Total	**18**	**1**

HOW WE ASSESS OUR PERFORMANCE

We believe that our performance and future success depend on several factors that present significant opportunities for us and may pose risks and challenges, as discussed in the "Risk Factors and Uncertainties" section of this MD&A. 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 stores, 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. Several factors influence the level of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence can affect purchases of our products.

As we have transitioned to generating sales primarily from our online stores, 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, retail occupancy costs, distribution and handling costs, delivery costs and warehouse related costs including salaries and amortization of right-of-use-assets.

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 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 asset impairment 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.

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

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.

SELECTED OPERATION AND FINANCIAL HIGHIGHTS

Sales during the fourth quarter of $31.4 million declined by $8.5 million or 21.4% over the prior year quarter. Adjusted EBITDA[1] in the fourth quarter of Fiscal 2022 was negative $0.9 million compared to $3.7 million in the prior year quarter. Sales in Fiscal 2022 of $83.0 million declined by $21.0 million or 20.2% over the prior year. Adjusted EBITDA in Fiscal 2022 of negative $5.0 million declined by $10.2 million compared to the prior year.

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

	For the three months ended		For the twelve months ended	
	January 28, 2023	**January 29, 2022**	**January 28, 2023**	**January 29, 2022**
Consolidated statement of operations data:				
Sales	**$ 31,356**	$ 39,878	**$ 83,026**	$ 104,073
Cost of sales	**22,749**	24,514	**54,714**	61,740
Gross profit	**8,607**	15,364	**28,312**	42,333
Selling, general and administration expenses	**11,929**	13,943	**42,864**	42,054
Restructuring plan activities, net	—	107	—	(76,857)
Results from operating activities	**(3,322)**	1,314	**(14,552)**	77,136
Finance costs	**198**	48	**730**	152
Finance income	**(178)**	(25)	**(414)**	(143)
Net (loss) income before income taxes	**(3,342)**	1,291	**(14,868)**	77,127
Recovery of income taxes	—	—	—	(1,000)
Net (loss) income	**$ (3,342)**	$ 1,291	**$ (14,868)**	$ 78,127
Percentage of sales:				
Sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**72.6%**	61.5%	**65.9%**	59.3%
Gross profit	**27.4%**	38.5%	**34.1%**	40.7%
Selling, general and administration expenses	**38.0%**	35.0%	**51.6%**	40.4%
Results from operating activities	**(10.6)%**	3.3%	**(17.5)%**	74.1%
Net (loss) income	**(10.7)%**	3.2%	**(17.9)%**	75.1%
Other financial and operations data:				
Adjusted EBITDA [1]	$ **(932)**	$ 3,696	$ **(4,976)**	$ 5,251
Adjusted EBITDA as a percentage of sales [1]	**(3.0)%**	9.3%	**(6.0)%**	5.0%
Adjusted net (loss) income [1]	$ **(2,153)**	$ 1,906	$ **(10,200)**	$ (481)

(1) For a reconciliation of Adjusted EBITDA and Adjusted net income (loss), to the most directly comparable measure calculated in accordance with IFRS, see "Non-IFRS financial measures and ratios" below.

NON-IFRS FINANCIAL MEASURES AND RATIOS

The Company uses certain non-IFRS financial measures and ratios for purposes of comparison to prior periods, to prepare annual operating budgets, and for the development of future projections. These measures and ratios 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 and ratios 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 present the following non-IFRS financial measures;

(a) "EBITDA and Adjusted EBITDA", which is defined as earnings before interest, taxes, depreciation and amortization, is presented 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, EBITDA and 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 expenses not in the normal course of operations. This measure also functions as a benchmark to evaluate our operating performance.

(b) "Adjusted net income (loss)" is presented 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.

We also present the non-IFRS ratios "Adjusted net income (loss) per fully diluted common share" and "Adjusted EBITDA as a percentage of sales" for purposes of evaluating underlying business performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period.

Management believes that these non-IFRS financial measures and ratios in addition to IFRS measures and ratios provide users of our financial reports with enhanced understanding of our results and related trends and increases the transparency and clarity of the core results of our business.

The use of non-IFRS financial measures and ratios provide complementary information that exclude items that do not reflect our core performance or where their exclusion would assist users in understanding our results for the period. Management believes these measures help users of MD&A to better analyze results, enabling better comparability of our results from one period to another and with peers.

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

- Adjusted EBITDA and Adjusted net income (loss) do not reflect changes in, or cash requirements for our working capital needs;
- Adjusted EBITDA and Adjusted net income (loss) 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 and ratios to the most directly comparable measure calculated in accordance with IFRS:

Reconciliation of Net (loss)income to Adjusted EBITDA

	For the three months ended		For the twelve months ended	
	January 28, 2023	**January 29, 2022**	**January 28, 2023**	**January 29, 2022**
Net (loss) income	$ **(3,342)**	$ 1,291	$ **(14,868)**	$ 78,127
Finance costs	**198**	48	**730**	152
Finance income	**(178)**	(25)	**(414)**	(143)
Depreciation and amortization	**851**	1,299	**3,495**	4,318
Recovery of income taxes (h)	**—**	—	**—**	(1,000)
EBITDA	$ **(2,471)**	$ 2,613	$ **(11,057)**	$ 81,454
Additional adjustments:				
Stock-based compensation expense (a)	**350**	468	**1,413**	1,405
Software implementation and configuration costs (b)	**389**	504	**3,611**	3,599
Restructuring plan activities, net (c)	**—**	107	**—**	(76,857)
Government emergency wage and rent subsidy (d)	**—**	4	**—**	(4,350)
Impairment of property and equipment and right-of-use assets (e)	**—**	—	**257**	—
Legal and regulatory settlement amounts (f)	**442**	—	**442**	—
Executive and employee seperation costs (g)	**358**	—	**358**	—
Adjusted EBITDA	$ **(932)**	$ 3,696	$ **(4,976)**	$ 5,251

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

	For the three months ended		For the twelve months ended	
	January 28, 2023	**January 29, 2022**	**January 28, 2023**	**January 29, 2022**
Net (loss) income	**$ (3,342)**	$ 1,291	**$ (14,868)**	$ 78,127
Software implementation and configuration costs (b)	**389**	504	**3,611**	3,599
Restructuring plan activities, net (c)	**—**	107	**—**	(76,857)
Government emergency wage and rent subsidy (d)	**—**	4	**—**	(4,350)
Impairment of property and equipment and right-of-use assets (e)	**—**	—	**257**	—
Legal and regulatory settlement amounts (f)	**442**	—	**442**	—
Executive and employee seperation costs (g)	**358**	—	**358**	—
Recovery of income taxes (h)	**—**	—	**—**	(1,000)
Adjusted net (loss) income	**$ (2,153)**	$ 1,906	**$ (10,200)**	$ (481)

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

	For the three months ended		For the twelve months ended	
	January 28, 2023	**January 29, 2022**	**January 28, 2023**	**January 29, 2022**
Weighted average number of shares outstanding, fully diluted	**26,893,028**	27,614,734	**26,530,443**	**27,644,498**
Adjusted weighted average number of shares outstanding, fully diluted	**26,893,028**	27,614,734	**26,530,443**	**26,323,469**
Net (loss) income	$ **(3,342)**	$ 1,291	$ **(14,868)**	$ 78,127
Adjusted net (loss) income	$ **(2,153)**	$ 1,906	$ **(10,200)**	$ (481)
Net (loss) earnings per common share, fully diluted	$ **(0.12)**	$ 0.05	$ **(0.56)**	$ 2.83
Adjusted net (loss) income per common share, fully diluted	$ **(0.08)**	$ 0.07	$ **(0.38)**	$ (0.02)

(a) Represents non-cash stock-based compensation expense.
(b) Represents costs related to implementation and configuration of software solutions.
(c) Represents the costs related to the Restructuring Plan activities, net.
(d) Represents the wages and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.
(e) Represents costs related to impairment of property and equipment and right-of-use assets and intangibles assets for stores.
(f) Represents management's best estimate of financial exposure regarding a claim amounting to $350,000 from a third-party for services rendered prior to July 8, 2020, when the Company announced it was implementing the Restructuring Plan under the Companies' Creditors Arrangement Act.
(g) Represents executive and employee separation costs resulting from management's cost containment actions.
(h) Represents reversal of previously accrued estimate of income tax liabilities that was compromised by the Restructuring Plan activities.

OPERATING RESULTS FOR THE FOURTH QUARTER OF FISCAL 2022 COMPARED TO THE FOURTH QUARTER OF FISCAL 2021

Sales. Sales decreased 21.4% to $31.4 million from $39.9 million in the fourth quarter of Fiscal 2022. Sales in Canada of $25.4 million, representing 81.0% of total revenues, decreased $6.0 million or 19.2% over the prior year quarter. U.S. sales of $6.0 million declined by $2.5 million or 29.4% over the prior year quarter.

Considering the generally unfavorable economic conditions and the impact to consumer confidence, we were highly promotional in the fourth quarter of Fiscal 2022 compared to the prior year which had a negative impact to our Gross Profit as noted below. We also experienced significant operational delays this year in fulfilling consumer online orders which had a negative impact on sales in the second half of the fourth quarter as consumers became aware of the longer than usual online order delivery experience.

Our tea and accessories assortment performed well, with sales amounting to $23.4 million, representing an increase of $2.2 million or 10.5% over the prior year quarter. Offsetting this was a decline in our variety box assortment over the same period in the prior year.

Sales from e-commerce and wholesale channels decreased by $7.4 million or 24.0% to $23.3 million, from $30.7 million in the prior year quarter as previous two years of pandemic-fueled online sales continued to level out. E-commerce and wholesale sales represented 74.4% of sales compared to 77.0% of sales in the prior year quarter. Brick-and-mortar decreased by $1.2 million or 12.5% to $8.0 million from $9.2 million for the same period in the prior year.

Gross profit. Gross profit decreased by 44.0% to $8.6 million in the fourth quarter of Fiscal 2022 from the prior year quarter due to lower sales, a greater emphasis on promotions, an increase in freight, shipping and fulfillment costs. Gross profit as a percentage of sales decreased to 27.4% for the quarter compared to 38.5% in the prior year quarter.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of $11.9 million decreased by $2.0 million or 14.4% compared to the prior year quarter primarily due to decreases in online marketing expenses of $1.4 million, compensation related savings of $176, net of $359 in separation costs, reduction in amortization costs of $263, reductions in professional and consulting fees of $234 and insurance costs of $131. Partially offsetting this cost reduction was a provision for legal claims of $351 and a provision of $559 against supplies inventory. As a percentage of sales, SG&A increased to 38.0% in this quarter from 35.0% in the prior year quarter.

EBITDA and Adjusted EBITDA[1]. EBITDA was negative $2.5 million in the quarter ended January 28, 2023, compared to $2.6 million in the prior year quarter representing a decrease of $5.1 million. Adjusted EBITDA for the quarter ended January 28, 2023, was negative $0.9 million compared to $3.7 million for the same period in the prior year. The decrease in Adjusted EBITDA, of $4.6 million, reflects the impact of decreased Sales and Gross Profit, partially offset by a decrease in SG&A, as noted above.

Net income (loss). Net loss was $3.3 million in the quarter ended January 28, 2023, compared to a Net income of $1.3 million in the prior year quarter. Adjusted net loss, was to $2.2 million compared to Adjusted net income of $1.9 million in the prior year quarter.

Fully diluted net income (loss) per share. Fully diluted net loss per common share was $0.12 compared to a fully diluted net income of $0.05 in the prior year quarter. Adjusted fully diluted net loss per common share[1], which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.08 compared to an adjusted fully diluted net income of $0.07 in the prior year quarter.

Cash on hand. At the end of the fourth quarter of Fiscal 2022, the Company had cash amounting to $22.4 million.

[1] For a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", above.

OPERATING RESULTS FOR FISCAL 2022 COMPARED TO FISCAL 2021

Sales. Sales for Fiscal 2022 decreased by 20.2% or by $21.0 million, to $83.0 million from $104.1 million in Fiscal 2021. Sales in Canada of $67.7 million, representing 81.5% of total revenues, decreased $14.9 million or 18.0% over the prior year. U.S. sales of $15.3 million decreased by $6.2 million or 28.8% over the prior year.

Sales in variety box assortment amounted to $25.3 million, representing a decrease of $14.9 million or 37.2% over the prior year. There was a decline in our tea and hard-goods assortment of $6.1 million or 9.6% over the prior year.

Sales from e-commerce and wholesale channels decreased by $21.8 million or 26.1% to $61.7 million from $83.5 million in the prior year. E-commerce and wholesale sales represented 74.3% of sales compared to 80.2% of sales in the prior year. Brick-and-mortar sales increased by $0.8 million or 3.7% to $21.4 million from $20.6 million in the prior year.

Gross profit. Gross profit decreased by 33.1% or $14.0 million, to $28.3 million in Fiscal 2022 in comparison to Fiscal 2021 due primarily to a decline in sales during the year and a lower gross margin. Gross profit as a percentage of sales decreased to 34.1% for the year ended January 28, 2023, from 40.7% in the prior year.

Selling, general and administration expenses. SG&A expenses increased by $0.8 million or 1.9%, to $42.9 million in Fiscal 2022. Excluding the impact of the wage and rent subsidies received under the Canadian government COVID-19 Economic Response Plan amounting to $4.4 million, SG&A costs decreased by $3.5 million. Cost reductions in Fiscal 2022 were primarily attributable to head-office staff compensation reduction of $878, partially offset by $359 in separation costs, amortization cost reduction of $1.1m, marketing cost reduction of $793 and professional and consulting services cost reduction of $716. These cost reductions were partially offset by increased wages in our retail stores, a provision for legal claims of $351 and a provision of $559 against supplies inventory. As a percentage of sales, SG&A increased to 51.6% in Fiscal 2022 from 40.4% in the prior year.

Restructuring plan activities, net. Restructuring plan activities, net is $nil compared to a gain of $76.9 million in the prior year. Included in last year's gain is the impact of the Sanction Order that was granted on June 16, 2021. Therein, net liabilities subject to compromise amounting to $95.3 million were settled according to the Sanction Order by payment of $17.6 million through the Monitor to creditors who had duly proven their claims as part of the claims process. The resulting gain of $79.9 million was reduced by $2.0 million of professional fees in connection with the CCAA proceedings and presented in the consolidated statements of income (loss) and comprehensive income (loss) in Restructuring Plan activities, net and Recovery of income taxes as a net gain of $76.9 million and $1.0 million, respectively.

EBITDA and Adjusted EBITDA[1]. EBITDA was negative $11.1 million in the year ended January 28, 2023 compared to favourable $81.5 million in the prior year representing a decrease $92.5 million over the prior year. Adjusted EBITDA for the year ended January 28, 2023, was negative $5.0 million compared to favourable $5.3 million in the prior year. The decrease in Adjusted EBITDA, of $10.2 million relates in a large part to the decrease in sales and gross profit.

Recovery of income tax. Recovery of income tax amounted to $nil compared to $1.0 million in Fiscal 2021. The recovery last year was due to the classification of the gain resulting from Restructuring Plan activities, net noted above.

Net income (loss). Net loss was $14.9 million in the year ended January 28, 2023 compared to a Net income of $78.1 million in the prior year. Adjusted net loss amounted to $10.2 million compared to an Adjusted net loss of $0.5 million in the prior year.

Fully diluted earnings (loss) per common share. Fully diluted net loss per common share was $0.56 in Fiscal 2022 compared to a fully diluted net earnings per share of $2.83 in Fiscal 2021. Adjusted fully diluted loss per common

[1] For a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", above.

share, which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.38, compared to $0.02 in the prior year.

SUMMARY OF QUARTERLY RESULTS

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

	Fiscal Year 2022				Fiscal Year 2021			
	Fourth Quarter $	Third Quarter $	Second Quarter $	First Quarter $	Fourth Quarter $	Third Quarter $	Second Quarter $	First Quarter $
Sales	31,356	16,176	15,207	20,287	39,878	22,203	18,743	23,249
Net (loss) income	(3,342)	(4,717)	(4,835)	(1,974)	1,291	(1,863)	75,477	3,221
EBITDA [1]	(2,471)	(3,759)	(3,851)	(976)	2,613	(778)	75,493	4,126
Adjusted EBITDA [1]	(932)	(2,004)	(2,128)	89	3,696	(308)	(641)	2,505
Net (loss) earnings per share:								
Basic	(0.12)	(0.18)	(0.18)	(0.07)	0.05	(0.07)	2.87	0.12
Fully diluted	(0.12)	(0.18)	(0.18)	(0.07)	0.05	(0.07)	2.75	0.12
Adjusted fully diluted [1]	(0.08)	(0.12)	(0.13)	(0.05)	0.13	(0.01)	(0.07)	0.05
Weighted average number of shares outstanding:								
Basic	26,893,028	26,566,441	26,487,933	26,426,055	26,393,118	26,359,969	26,299,094	26,296,690
Fully diluted	26,893,028	26,566,441	26,487,933	26,426,055	27,614,734	26,359,969	27,455,005	27,400,840
Cash	22,440	16,131	19,048	22,680	25,107	13,367	12,051	31,321
Accounts receivable	3,258	3,937	2,497	3,197	3,209	4,602	6,986	6,625
Prepaid expenses and deposits	5,839	6,137	5,172	4,479	4,142	4,835	5,580	11,578
Inventories	19,522	29,985	30,234	28,359	31,048	39,802	38,055	29,258
Trade and other payables	12,310	14,445	11,701	8,966	12,300	13,958	12,533	6,154

LIQUIDITY AND CAPITAL RESOURCES

As at January 28, 2023, we had $22.4 million of cash held by major Canadian financial institutions.

Working capital was $30.8 million as at January 28, 2023 compared to $43.4 million as at January 29, 2022. The decrease in working capital is substantially explained by a decrease in cash and inventories.

Our primary source of liquidity is cash on hand and cashflow generated from operations. Our working capital requirements are driven by the purchase of inventory, payment of payroll, ongoing technology expenditures and other operating costs.

Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. Capital expenditures in our new business model are not significant and amounted to $129 in Fiscal 2022 (Fiscal 2021 - $52).

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[1] For a reconciliation of EBITDA, Adjusted EBITDA and Adjusted fully diluted (loss) earnings per share to the most directly comparable measure calculated in accordance with “IFRS”, see “Non-IFRS financial measures and ratios”, above.

As at January 28, 2023, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company, amounting to $6.7 million, net of $815 of advances (Fiscal 2021 - $11.3 million, net of $542 of advances) which are expected to be discharged within 12 months.

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

This credit facility is subject to financial covenants which were not met at January 28, 2023 thereby rendering the facility unavailable.

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 twelve months ended	
	January 28, 2023	January 29, 2022
	$	$
Cash flows provided by (used in):		
Operating activities	**488**	(4,241)
Financing activities	**(3,026)**	(797)
Investing activities	**(129)**	(52)
Decrease in cash	**(2,667)**	(5,090)

Cash flows provided by (used in) operating activities

	For the year ended	
	January 28, 2023	January 29, 2022
	$	$
OPERATING ACTIVITIES		
Net (loss) income	**(14,868)**	78,127
Items not affecting cash:		
Depreciation of property and equipment	**320**	1,586
Amortization of intangible assets	**555**	1,695
Amortization of right-of-use assets	**2,620**	1,037
Gain on liabilities subject to compromise	**—**	(79,861)
Interest on lease liabilities	**637**	131
Impairment of property and equipment and right-of-use assets	**257**	—
Amortization of Financing Fees	**79**	—
Stock-based compensation expense	**1,413**	1,405
Sub-total	**(8,987)**	4,120
Net change in non-cash working capital balances related to operations	**9,475**	(8,361)
Cash flows provided by (used in) operating activities	**488**	(4,241)

Cash flows provided by (used in) operating activities. Net cash flows provided by operating activities during the year ended January 28, 2023 amounted to $488 (negative $4.2 million in prior year) mainly due to the favourable net changes in non-cash working capital balances related to operations partially offset by the increased net loss.

Cash flows used in investing activities

	For the year ended	
	January 28, 2023	**January 29, 2022**
	$	**$**
INVESTING ACTIVITIES		
Additions to property and equipment	**(129)**	(52)
Cash flows used in investing activities	**(129)**	(52)

Cash flows used in investing activities. Cash flows used in investing activities relates to the addition of property and equipment in our production and assembly operations and is slightly higher in the current year when compared to prior year.

Cash flows used in financing activities

	For the year ended	
	January 28, 2023	**January 29, 2022**
	$	**$**
FINANCING ACTIVITIES		
Payment of lease liabilities	**(3,026)**	(797)
Cash flows used in financing activities	**(3,026)**	(797)

Cash flow used in financing activities. Net cash flows used in financing activities of $3 million during the year ended January 28, 2023 ($0.8 million in prior year) are the result of increased lease payments on leases signed in July 2021 following the CCAA.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for purchase obligations. As at January 28, 2023, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company. Purchase obligations amounting to $6.7 million, net of advances amounting to $815, which are included in Prepaid expenses and deposits, (Fiscal 2021 - $11.3 million, net of $542 of advances) are expected to be discharged within 12 months.

LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are not presently a party to any significant 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. See “Risk Factors and Uncertainties”.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Our Audit Committee reviews and approves related-party transactions or recommends related-party transactions for review by independent members of our Board of Directors. Each of the transactions described below have been reviewed by our Audit Committee.

Related party transactions are fully described in Note 19 - Related party transactions, in the Company's audited consolidated financial statements which are available on the SEDAR website at www.sedar.com, with excerpts included herein.

Related party transactions

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

During the year ended January 28, 2023, the Company purchased merchandise for resale from a company controlled by one of its executive employees amounting to $144 (January 29, 2022 - $305). As of January 28, 2023, an amount of $4 was outstanding and presented in Trade and other payables (January 29, 2022, $nil).

The Company also provided infrastructure and administrative services of $13 (January 29, 2022 - $60) to a company controlled by one of its executive employees. As of January 28, 2023, an amount of $3 was outstanding and presented in Trade and other receivables (January 29, 2022, $nil).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of operating results and financial condition is based upon our audited consolidated 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 in Note 3 to our audited consolidated financial statements which are available on the SEDAR website at www.sedar.com. There have been no material changes to the critical accounting policies and estimates since January 31, 2021, other than as disclosed in Note 3 to the consolidated financial statements.

Key sources of estimation uncertainty

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

i. Recoverability and impairment of non-financial assets

In Fiscal 2022, the continued decrease in sales of the Company as well as the decline in its stock market capitalization are considered indicators of impairment. In previous years, the temporary store closures because of COVID-19, as well as the permanent closure of most of our retail stores resulting from the Restructuring Plan, and the related reduction in sales and operating income during Fiscal 2021 were also considered to be indicators of impairment. The Company performed an assessment of recoverability for the non-financial assets related to each CGU. Significant assumptions affecting the recoverable amount calculated for each asset or group of assets within a CGU include the lease discount rate and $/sqft for right-of-use assets and cost of replacement for the software intangible asset. As for property and equipment, given their short useful lives, their carrying amount approximates their recoverable amount. These assumptions used by the Company require estimation and contain a source of uncertainty.

ii. Estimating the incremental borrowing rate of leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity and asset-specific estimates (such as the subsidiary's stand-alone credit rating).

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P")

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators requires that the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") certify that they are responsible for establishing and maintaining DC&P for the Company, that DC&P have been designed and are effective in providing reasonable assurance that material information relating to the Company is made known to them, that they have evaluated the effectiveness of the Company's DC&P, and that their conclusions about the effectiveness of those DC&P at the end of the period covered by the relevant annual filings have been disclosed by the Company.

Under the supervision of and with the participation of management, including the Chief Executive and Brand Officer and President, Chief Operating and Financial Officer, management has evaluated the design and operating effectiveness of the Company's DC&P as at January 28, 2023 and have concluded that those DC&P were appropriately designed and operating effectively in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

Internal controls over financial reporting ("ICFR")

National Instrument 52-109 also requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for the Company, that the design and operation of the internal controls are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS, and that the Company has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its ICFR.

During fiscal 2022, management evaluated the Company's ICFR to ensure that their design and operation are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS. Management has used the Internal Control – Integrated Framework (2013) to evaluate the effectiveness of ICFR, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision of and with the participation of management, including the Chief Executive and Brand Officer and President, Chief Operating and Financial Officer, management has evaluated the ICFR as at January 28, 2023 and have concluded that those internal controls were appropriately designed and were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

Changes in DC&P and ICFR

During the fourth quarter ended January 28, 2023, the Company has made no change that has materially affected or is likely to materially affect the Company's internal controls over financial reporting.

RISK FACTORS AND UNCERTAINTIES

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

Our Risks and Uncertainties fall under five broad categories:

Risks Related to Operational and Strategic Matters

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

Risks Related to External and Economic Matters

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

- Fluctuations in foreign currency exchange rates could harm our results of operations as well as the price of common shares.
- Fluctuations in our results of operations for the fourth fiscal quarter have a disproportionate effect on our overall financial condition and results of operations.

Risks Related to Regulatory, Data Privacy and Compliance Matters

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

Risks Related to Accounting and Tax Matters

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

Risks Relating to Ownership of Our Common Shares

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

Risks Related to Operational and Strategic Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to External and Economic Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fluctuations in economic conditions could materially impact our operating results.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Regulatory, Privacy and Compliance Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Accounting and Tax Matters

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

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

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

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

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

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

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

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

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

Risks Relating to Ownership of Our Common Shares

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

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

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

Our stock price may be volatile or may decline.

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

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

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

- conditions and trends affecting our industry or the economy globally, such as higher inflation in North America, increased cost of inventory, third-party services and labour costs;
- central banks raising interest rates, which, along with the higher inflation rates, may weaken consumer sentiment, decrease discretionary spending levels, increase consumer price sensitivity, and negatively impact sales;
- the lingering effect of the COVID-19 pandemic and the conflict in Ukraine and the surrounding region;
- stock market price and volume fluctuations of other publicly traded companies and those that are in the retail industry;
- instability in financial markets or other factors that may affect economic conditions, on a global level or in particular markets;
- fluctuations of the Canadian dollar exchange rate relative to the U.S. dollar;
- variations in our operating performance and the performance of our competitors;
- seasonal fluctuations;
- our entry into new markets;
- actual or anticipated fluctuations in our quarterly financial and operating results or other operating metrics that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our shares;
- issuance of new or changed securities analysts' reports or recommendations;
- loss of visibility as to investor expectations because of a lack of published reports from industry analysts;
- actions and announcements by us or our competitors, including new product offerings, significant acquisitions, strategic partnerships, or divestitures;

- sales, or anticipated sales, of large blocks of our shares, including sales by Rainy Day, our directors, officers or significant shareholders;
- additions or departures of key personnel;
- significant developments relating to our relationships with business partners, vendors, and distributors;
- regulatory developments negatively affecting our industry;
- changes in accounting standards, policies, guidance, interpretation, or principles;
- volatility in our share price, which may lead to higher share-based compensation expense under applicable accounting standards;
- speculation about our business in the press or investment community;
- investors' perception of the retail industry in general and our Company in particular; and
- other events beyond our control such as major catastrophic events, weather, and war.

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

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

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

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

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

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

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