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

Form 10-K

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

For the fiscal year ended January 30, 2021

OR

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

For the transition period from ________ to ________

Commission file number **001-37404**

DAVIDsTEA Inc.

(Exact name of registrant as specified in its charter)

Canada	**98-1048842**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of August 1, 2020, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the registrant's Common Shares held by non-affiliates was US$13,200,483.

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

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

EXPLANATORY NOTE

DAVIDsTEA Inc. (the "Company"), a corporation incorporated under the *Canada Business Corporations Act*, qualifies as a foreign private issuer in the United States for purposes of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has chosen to file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the United States Securities and Exchange Commission ("SEC") instead of filing on the reporting forms available to foreign private issuers, although the Company is not required to do so. We are permitted to file our audited consolidated financial statements with the SEC under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), without a reconciliation to U.S. generally accepted accounting principles ("U.S. GAAP"). As a result, we do not prepare a reconciliation of our results to U.S. GAAP. It is possible that certain of our accounting policies could be different from U.S. GAAP.

The Company prepares and files a management proxy circular and related material under Canadian requirements. As the Company's management proxy circular is not filed pursuant to Regulation 14A, the Company may not incorporate by reference information required by Part III of this Form 10-K from its management proxy circular.

In this annual report on Form 10-K, unless otherwise specified, all monetary amounts are in Canadian dollars, all references to "$," "C$," "CAD", "CND$", "CDN$," "CDN," "Canadian dollars" and "dollars" mean Canadian dollars and all references to "U.S. dollars," "US$" and "USD" mean U.S. dollars.

On April 26, 2021, the Bank of Canada closing average exchange rate was US$1.00 = CAD$1.2412.

All references to our website contained herein do not constitute incorporation by reference of information contained on such websites and such information should not be considered part of this document.

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PART I

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and there are, or may be deemed to be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes", "expects", "may", "will", "should", "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 restructuring process, the COVID-19 pandemic, our strategy of transitioning to e-commerce and wholesale sales, future sales through our e-commerce and wholesale channels, the closing of certain of our retail stores, future lease liabilities, our results of operations, financial condition, liquidity and prospects, the impact of the COVID-19 pandemic on the global macroeconomic environment, and our ability to avoid the delisting of the Company's common stock by Nasdaq due to the restructuring or our inability to maintain compliance with Nasdaq listing requirements.

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 listed under Item 1A. Risk Factors, as well as other cautionary language in this Form 10-K.

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

- ☐ *The effects of our Restructuring Plan pursuant to the CCAA in Canada and recognition of the CCAA proceedings in the United States under Chapter 15 of the United States Bankruptcy Code;*
- ☐ *We may not have sufficient cash to maintain our operations following the Restructuring Plan.*
- ☐ *We are subject to actions and decisions of our creditors and other third parties who have interests in our Restructuring Plan that may be inconsistent with our interests.*
- ☐ *Our ability to successfully pivot our business to a digital-first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees that are instrumental to growing our online and wholesale channel businesses;*
- ☐ *The duration and impact of the global COVID-19 pandemic, which has disrupted the Company's business and has adversely affected the Company's financial condition and operating results, and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners;*
- ☐ *Our ability to avoid the delisting of the Company's common stock by Nasdaq due to the Restructuring Plan or our inability to maintain compliance with Nasdaq listing requirements;*
- ☐ *Our ability to manage significant changes to our leadership team;*
- ☐ *Our ability to maintain and enhance our brand image;*
- ☐ *Significant competition within our industry;*

- ☐ *Our ability to attract and retain employees that embody our entrepreneurial culture;*
- ☐ *Changes in consumer preferences and economic conditions affecting disposable income;*
- ☐ *Our ability to source, develop and market new varieties of teas, tea accessories, and beverages;*
- ☐ *Our reliance upon the continued retention of key personnel;*

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

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. These statements are based upon information available to us as of the date of this Form 10-K, 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 Annual Report on Form 10-K might not occur, and investors are cautioned not to unduly rely upon these statements.

Forward-looking statements speak only as of the date of this Form 10-K. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-K, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this Form 10-K 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.

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ITEM 1. BUSINESS

DAVIDsTEA's common shares trade on the NASDAQ Global Market 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.

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 Annual Report on Form 10-K, by the calendar year in which the fiscal year commenced. All references herein to the Company's fiscal years are as follows:

Fiscal year	Year ended / ending	Number of weeks
Fiscal 2016	January 28, 2017	52
Fiscal 2017	February 3, 2018	53
Fiscal 2018	February 2, 2019	52
Fiscal 2019	February 1, 2020	52
Fiscal 2020	January 30, 2021	52

Our Company

DAVIDsTEA offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 2500 grocery stores and pharmacies, and 18 company-owned stores across Canada. We offer primarily proprietary tea blends that are exclusive to DAVIDsTEA, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Market and Competition

We participate in a large and growing global tea market which, combined with the relatively low percentage of tea sales in North America, makes the market opportunity very attractive. The markets for tea products in Canada and the United States are highly fragmented and we compete with a large number of relatively small independently owned tea retailers and a number of regional tea retailers, as well as retailers of grocery products, including loose-leaf teas, tea sachets and tea-related beverages. We also compete with other vendors of loose-leaf teas, tea sachets and ready-to-drink teas, such as club stores, wholesalers and internet suppliers, as well as with houseware retailers and suppliers that offer tea wares and related accessories.

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

Our Product Offerings

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

Teas

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

Tea Accessories

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

Distribution Channels

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

Digital Retail

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

Wholesale

We sell our tea and related products to premium grocery and drugstore chains throughout Canada. We believe that the broad distribution of select tea blends helps to service not only existing customers but also attract new customers to our exclusive sachet tea offerings, while ultimately also driving greater brand awareness and traffic to our online and retail stores where our full selection of products including loose-leaf tea blends and packaged gifts become available. In Fiscal 2020, demand from hotels, restaurants and various other office and corporate customers was softened by the impact of COVID-19.

Retail Stores and Operations

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

We began the year with over 230 stores in North America and as of January 30, 2021, our retail footprint consisted of 18 mall-based stores in Canada. Each store exterior prominently displays the DAVIDsTEA teal signage and our in-store Tea Guides' passion for tea and wellness permeate our culture. A key element of the retail experience is our "Tea Wall," a focal point of the store. Our Tea Guides help to create a highly interactive and immersive multi-sensory experience for our customers. The Tea Guides facilitate customers' interaction with our products through education and sampling, which allows our customers the opportunity to appreciate the compelling attributes of tea as well as the ease of preparation.

Marketing and Advertising

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

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

COVID-19 has impacted our in-store marketing efforts as we address the social distancing and other regulatory requirements and protocols. Notwithstanding this, we differentiate our business through a field-based marketing approach to build brand awareness and drive customers to our stores and website in both new and existing markets.

Product Development and Design

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

Travel restrictions brought on by COVID-19 have not impacted our ability to develop new products and innovate, due primarily to strong relationships built over the years with our suppliers, including our significant library of untapped new blends and products that we can bring to market as required.

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

Sourcing and Manufacturing

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

Warehouse and Distribution Facilities

We distribute our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories to our stores and our online customers from distribution centers in Sherbrooke, Québec and Champlain, New York using third-party logistics facilities in these locations. The Sherbrooke, Québec facility ships to all our Canadian customers. The Champlain, New York facility ships to all our U.S. customers. Our products are typically shipped to our customers via third-party national transportation providers multiple times per week.

We also assemble finished goods from our production facility located in Montreal, Québec. COVID-19 has heighted the importance of our health and safety protocols on our production, warehouse and distribution facilities. Social distancing and other health and safety requirements, including cleanliness protocols, have put constraints on our production capacity, which we have addressed through additional operating shifts and automating manual processes where possible.

Management Information Systems

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

Government Regulation

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

Insurance

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

Trademarks and Other Intellectual Property

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

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

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

Human Capital

As of January 30, 2021, we employed a total of 252 full-time employees and 182 part-time employees in Canada. Of all those employees, 137 were employed in our corporate office, 112 in our production and distribution operations and 185 were employed in our store network. None of our employees is represented by a labor union.

Seasonality

Our business experiences seasonal fluctuations, reflecting increased sales during the holiday season in November and December. Our sales and income are generally highest in the fourth quarter, which includes the holiday sales period, and tends to be lowest in the second and third fiscal quarters. Therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, we must increase our inventory levels above those maintained during the rest of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, to reach their highest levels in the third and fourth quarters in anticipation of the increased net sales during the holiday season. As a result of this seasonality, and generally because of variations in consumer spending habits, we experience fluctuations in net sales, earnings/(losses) and working capital requirements during the year.

Corporate Information

DAVIDsTEA Inc. was incorporated under the *Canada Business Corporations Act*, or the CBCA, on April 30, 2008, and our principal executive offices are located at 5430 Ferrier Street, Mount-Royal, Québec, Canada, H4P 1M2. Our telephone number at our principal executive offices is (888) 873-0006. Our website address is www.davidstea.com.

DAVIDsTEA Inc. owns a 100% equity interest in its sole subsidiary, DAVIDsTEA (USA) Inc., a corporation organized under the laws of Delaware.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments to these reports are filed with the SEC and the Québec Autorité des marchés financiers (the “AMF”). We are subject to the informational requirements of the Securities Act of 1933 (the “Securities Act”) and the Exchange Act, and we file or furnish reports, proxy statements and other information with the SEC and/or the AMF as required by applicable law.

Our website is located at www.davidstea.com, and our investor relations website is located at http://ir.davidstea.com. The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the SEC and the AMF (including all annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available, free of charge, on our investor relations website as soon as reasonably practicable after we electronically file them with the SEC and the AMF. To request a printed copy of this Annual Report on Form 10-K or consolidated financial statements and related MD&A as of and for the year ended January 30, 2021, which we will provide without charge, please contact the Company’s Chief Financial Officer at 5430, Ferrier Street, Town of Mount-Royal, H4P 1M2, or send an email to investors@davidstea.com. Additional information relating to the Company, including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under equity compensation plans is also contained in the Company’s information circular, which will be available on SEDAR at www.sedar.com or on EDGAR at www.sec.gov.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below together with all of the other information contained in this Annual Report on Form 10-K and in our other public disclosures. If any of the following risks actually occurs, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common shares could decline and you could lose all or part of your investment. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known to us or that are currently deemed immaterial that may adversely affect our business and financial condition. These risk factors could cause actual results to differ materially from those expressed or implied in any of our forward-looking statements.

Risk Factor Summary

Risks Associated with the Restructuring Plan

- We are subject to the risks and uncertainties associated with the Restructuring Plan, and even if our Restructuring Plan is completed, we may not be able to achieve our stated goals, creating substantial doubt regarding our ability to continue as a going concern.
- As a result of the Restructuring Plan, our financial results may be volatile and may not reflect historical trends.
- Any Plan of Arrangement that we implement under the CCAA will be based in large part upon assumptions and analyses developed by us; if these assumptions and analyses prove to be incorrect, our Plan of Arrangement may be unsuccessful in its execution.
- Trading in our shares for the duration of the Restructuring Plan poses substantial risks.
- We may be subject to claims that will not be discharged in the Restructuring Plan, which could have a material adverse effect on our financial condition and results of operations.
- We may not have sufficient cash to maintain our operations following the Restructuring Plan.
- Operating under Court protection for an extended period of time may harm our business.
- We may not be able to obtain approval of a Plan of Arrangement under the CCAA.
- We may experience increased levels of employee attrition as a result of the Restructuring Plan.
- We are subject to actions and decisions of our creditors and other third parties who have interests in our Restructuring Plan that may be inconsistent with our interests.
- We may not be able to obtain financing.

Risks Related to Operational and Strategic Matters

- Substantial doubt about the Company's ability to continue as a going concern.
- 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 operations and has strained our operational, managerial and administrative resources, which may adversely affect our business.
- 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, accessories, and craft beverages – 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.

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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 us.
- 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, as a result 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.
- We face business disruption and related risks resulting from the COVID-19 pandemic, which could have a material adverse effect on our business and results of operations.
- Fluctuations in foreign currency exchange rates could harm our results of operations as well as the price of common shares.
- We face risks from the shifting dynamics in international trade.

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 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 the United States and Canada, or an adverse action regarding product claims or advertising could have a material adverse effect on our results of operations and financial condition.

Risks Related to Accounting and Tax Matters

- We previously identified material weaknesses in our internal control over financial reporting. If we are unable to implement and maintain effective internal control over financial reporting in the future, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common shares may be negatively affected.

Risks Related to Ownership of Our Common Shares

- If we fail to comply with the continued listing requirements of the Nasdaq Global Market, it could result in our common stock being delisted, which could adversely affect the market price and liquidity of our securities and have other adverse effects.
- Nasdaq has the discretionary authority to suspend or terminate our listing as a result of the Restructuring Plan.
- Our largest shareholder owns 46% of our common shares, which may limit our minority shareholders' ability to influence corporate matters.
- Our stock price may be volatile or may decline.
- Because we are a federally incorporated Canadian corporation and the majority 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 may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.
- There could be adverse tax consequence for our shareholders in the United States if we are a passive foreign investment company.

Risks Associated with the Restructuring Plan

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

As set out above, on July 8, 2020, we obtained the Initial Order pursuant to the CCAA from the Quebec Superior Court (the "Court") in order to implement the Restructuring Plan and on July 9, 2020, the United States Bankruptcy Court for the District of Delaware entered an order in favor of the Company under Chapter 15 of the United States *Bankruptcy Code* which provisionally recognized the proceedings under the CCAA and enforced the Initial Order, in effect providing protection to the Company from creditor action against its assets in the United States. On July 16, 2020, we obtained an Amended and Restated Initial Order from the Quebec Superior Court, extending the stay of all proceedings against the Company to September 17, 2020. We have since approached the Court and obtained most recently a stay of all proceedings against the Company to June 4, 2021. The Amended and Restated Initial Order and subsequent Orders also dealt with certain administrative matters.

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

- our ability to develop, confirm and consummate a Plan of Arrangement under the CCAA or an alternative restructuring transaction;
- our ability to obtain approval from the Quebec Superior Court with respect to motions filed from time to time in connection with the Restructuring Plan;
- our ability to obtain approval from the United States Bankruptcy Court for the District of Delaware with respect to motions filed from time to time under Chapter 15 of the United States Bankruptcy Code in connection with the Restructuring Plan;
- our ability to maintain our relationships with our suppliers, service providers, customers, employees and other third parties;
- our ability to maintain contracts that are critical to our operations;
- our ability to develop and execute our business plan;
- our ability to maintain our listing on the Nasdaq Global Market; and
- our lowered ability to obtain acceptable and appropriate financing.

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

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

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

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

Any Plan of Arrangement that we implement under the CCAA will be based in large part upon assumptions and analyses developed by us; if these assumptions and analyses prove to be incorrect, our Plan of Arrangement may be unsuccessful in its execution.

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

- our ability to transition to online sales and sales through wholesale channels than from sales through retail stores;
- our ability to generate adequate liquidity or access financing sources;
- our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them;
- our ability to retain key employees; and
- the overall strength and stability of general economic conditions and the retail industry, both in Canada and the United States.

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

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

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

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

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

The CCAA provides that approval of a Plan of Arrangement discharges a debtor from substantially all debts arising prior to such approval. With few exceptions, all claims that arose prior to confirmation of a Plan of Arrangement (i) would be subject to compromise and/or treatment under the Plan of Arrangement and/or (ii) would be discharged in accordance with the terms of such Plan of Arrangement. Any claims not ultimately discharged through the Plan of Arrangement could be asserted against us and may have an adverse effect on our financial condition and results of operations on a post-Restructuring Plan basis.

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

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

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

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

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

In connection with the Restructuring Plan, we are required to obtain approval from our creditors for a Plan of Arrangement by the requisite majority votes set out in the CCAA. Specifically, in accordance with the CCAA, the Plan of Arrangement will be subject to approval by a simple majority in number of the holders of "provable claims", representing at least two-thirds of the aggregate dollar amount of such "provable claims". There can be no assurance that we will be successful in obtaining such approval from our creditors. If we do not obtain such approval from our creditors, we will have to submit a new or amended Plan of Arrangement to our creditors for approval. If such new or amended Plan of Arrangement is not approved by our creditors by the foregoing requisite majority votes, it is possible that our creditors will ask the Quebec Superior Court to lift the stay of proceedings currently in effect and exercise their various legal recourses against us.

Moreover, if our Plan of Arrangement is approved by our creditors by the requisite majority votes set out in the CCAA, we will have to obtain an order from the Quebec Superior Court homologating or ratifying the Plan of Arrangement. In order to obtain the order, we will have to appear before the Quebec Superior Court and demonstrate to the Court that the Plan of Arrangement is fair and reasonable, independent of creditor approval. There can be no assurance that we will be able to obtain homologation of the Plan of Arrangement from the Quebec Superior Court.

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

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

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

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

We may not be able to obtain financing.

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

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

Risks Related to Operational and Strategic Matters

Substantial doubt about the Company's ability to continue as a going concern.

Our audited financial statements as of and for the year ended January 30, 2021 were prepared on the assumption that we would continue as a going concern, and did not include any adjustments that might result from the outcome of this uncertainty. Our management has determined that there is a substantial doubt about our ability to continue as a going concern over the next twelve months due to uncertainty regarding the successful transition to a digital first organization and emerging from our formal restructuring process.

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 operations and has strained our operational, managerial and administrative resources, which may adversely affect our business.

Our business strategy involves a transition to online sales and sales through wholesale channels of our high-quality tea and accessories, from our previous 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 enhance our operational management systems, financial and management controls and information systems, and to hire, train and retain 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 have experienced a slowdown in the growth rate of our business during the past few years, meaning our former high levels of growth may not be achieved in future periods without successfully shifting our strategy away from retail sales.

We have experienced significant fluctuation in the growth rate of our business during the last several years. Although we have planned initiatives to support a return to the growth of our business, such as continued investment in our online store, increased marketing and product development to support our wholesale business, and changes to our promotional strategy, the negative impact of the COVID-19 pandemic on our retail sales has accelerated our decision to shift away from a significant retail focus and to focus on our online store and wholesale business.

If we are unable to execute these or other related strategies, our results of operations and financial condition will be negatively impacted.

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, accessories, and craft beverages – 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. In particular, 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 and non-economic conditions such as geopolitical issues, trade restrictions, unseasonable weather, pandemics, including the current COVID-19 pandemic as well as the transition to selling our products primarily online and other factors that are outside of our control. These discretionary purchases may decline during recessionary periods or at other times when disposable income is lower. Further, due to the COVID-19 pandemic and our permanent store closings, our financial performance has become more susceptible to economic and other conditions, as the consumer is limited to purchasing our products through the on-line store and a selection of products through grocery stores and pharmacies. We have seen significant decreases in consumer spending as a result of COVID-19, 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 in order 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 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 as a result 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 a sufficient number of employees, who understand and appreciate our culture, represent our brand effectively and establish credibility with our customers. 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 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 centers. 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.

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 us.

The U.S. and Canadian tea markets are highly fragmented. We compete directly with a large number of relatively small independently owned tea retailers and a number of 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 and specially blended teas on a continuous basis. Our financial performance depends in large part on our ability to purchase tea 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.

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, labor 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.

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 as a result 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, as a result 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 labor 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 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.

All of 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 the United States and Canada. The United States, Canada, 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 the United States, Canadian 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 the majority 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 of our product shipments from our distribution centers 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. For example, the COVID-19 pandemic has adversely impacted third-party transportation providers and their ability to operate at expect levels. 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.

We face business disruption and related risks resulting from the COVID-19 pandemic, which could have a material adverse effect on our business and results of operations.

COVID-19 spread rapidly throughout the world, prompting governments and businesses to take unprecedented measures in response. On March 17, 2020, we closed all of our stores in North America, as subsequently mandated by governments in both Canada and the United States, to protect our employees, customers and communities in light of the COVID-19 pandemic. As we have moved away from a significant retail footprint toward an online and wholesale focused business, there is no assurance that the customers will purchase our products at previous volumes through these channels.

Additionally, we rely on our employees, contractors, third-party transportation providers, vendors and other business partners to perform our and their respective responsibilities and obligations relative to the conduct of our business. As part of the reevaluation of our strategy due to the impact of the COVID-19 pandemic on our retail business and our decision to pursue a restructuring, we significantly decreased our retail footprint, by terminating leases for 164 of our stores in Canada and all 42 of our stores in the United States. On August 21, 2020, we re-opened 18 stores across Canada. We cannot predict when any of our contractors, third-party transportation providers, vendors and other business partners will be able to operate at previous levels. Nor can we predict the duration of the COVID-19 pandemic and whether existing restrictions may be extended or new restrictions will be put in place. The Company has at times required substantially all of its employees to work remotely.

The Company continues to monitor the situation and take appropriate actions in accordance with recommendations and requirements of relevant authorities. The impacts to date; however, have been significant, including but not limited to the acceleration of our decision to shift away from a significant retail footprint. The ultimate impact is and will remain unknown and largely dependent upon future developments, including but not limited to information on the duration and spread of COVID-19, changes in customer demand, additional mitigation strategies proposed by Canadian and United States public authorities (including federal, state, provincial or local stay-at-home or similar orders), and restrictions on the activities of our European and other internationally-based suppliers and on the shipment of goods.

The COVID-19 pandemic continues to rapidly evolve. The ultimate impact of the COVID-19 pandemic on our results, financial position and liquidity will depend on future developments, which are highly uncertain and cannot be predicted, such as the transmission rate of the disease, including the impact from new variants, the extent and effectiveness of containment actions and vaccination rollout, particularly as areas are reopened, and the impact of these and other factors on our stores, employees, distributors, vendors and customers. If we are not able to respond to and manage the impact of such events effectively, our business, operating results, financial condition and cash flows could be adversely affected.

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 combined 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 and lower selling, general and administration expenses that are generated in U.S. dollars.

In addition, a majority 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. From time to time, we have entered into forward contracts to fix the exchange rate of our expected U.S. dollar purchases in respect to our inventory. However, we have not entered into such contract during fiscal 2020 and have none outstanding at this time. Any forward contracts may be inadequate in offsetting any gains and losses in foreign currency transactions, and such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

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.

We face risks from the shifting dynamics in international trade.

The lack of clarity about the effects of Brexit and future laws and regulations pertaining to international trade creates uncertainty for us, which may affect our business and operations.

Although none of our suppliers or manufacturers are based the United Kingdom, a significant portion of our tea comes from suppliers in European Union countries, such as Germany. The United Kingdom formally left the European Union on January 31, 2020. This began a transition period that ran until December 31, 2020. On December 24, 2020, the European Commission reached a trade agreement with the United Kingdom on the terms of its future cooperation with the European Union (the “Trade Agreement”). The Trade Agreement offers United Kingdom and European Union companies preferential access to each other’s markets, ensuring imported goods that satisfy applicable point of origin rules (that is, that United Kingdom or European Union goods are wholly produced or significantly worked in the United Kingdom or European Union, as applicable) will be free of tariffs and quotas; however, economic relations between the United Kingdom and the European Union will now be on more restrictive terms than existed previously.

Further, uncertainty related to future protectionist trade policies may have a material adverse effect on global economic conditions, and may significantly reduce global trade. Increasing trade protectionism may cause an increase in (i) the cost of goods exported from regions globally, (ii) the length of time required to transport goods and (iii) the risks associated with exporting goods. Such increases may significantly affect the quantity of goods to be shipped, shipping time schedules, shipping costs and other associated costs, which could have a material adverse effect on our business, results of operations and financial condition.

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.

In order 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 as a result 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 U.S. and Canadian federal, state and/or provincial 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 March 2021. 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, state and/or provincial 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 cash, credit and 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 our 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. 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, state, provincial and federal privacy laws and we could incur significant costs in complying with the multitude of foreign, state, provincial and federal laws regarding the unauthorized disclosure of personal information. Although we carry business interruption 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.

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 platforms and devices, 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 platforms and devices 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.

If we face labor shortages or increased labor costs, our results of operations and our growth could be adversely affected.

Labor is a significant component of the cost of operating our business. Our ability to meet labor needs while controlling labor 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 labor and employment requirements. 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. If we face labor shortages or increased labor costs because of increased competition for employees from our competitors and other industries, higher employee-turnover rates, increases in the federal- or state-mandated minimum wage, 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.

Our failure to comply with existing or new regulations, both in the United States and Canada, 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, particularly the FDA, the FTC and the Office of Foreign Asset Control ("OFAC") 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. In particular, 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 assure you 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 the United States and Canada 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 related to our manufacturing process or failure to comply with government regulations pertaining to the use of the term organic 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 in order 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

We previously identified material weaknesses in our disclosure controls and procedures and internal control over financial reporting. These weaknesses were remediated in the Fiscal 2020, however, it is possible that in future periods material weakness could be identified. If we are unable to implement and maintain effective disclosure controls and procedures and internal control over financial reporting in the future, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common shares may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") requires that we evaluate and determine the effectiveness of our internal control over financial reporting and furnish a report by management on the effectiveness of our internal control over financial reporting; however, as "non-accelerated filer," our independent accountants are not required to provide a separate attestation regarding the effectiveness of our internal controls. We evaluate our existing internal controls over financial reporting based on the 2013 framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment includes the evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. During the course of our ongoing evaluation of our disclosure controls and procedures and internal controls, we may identify areas requiring improvement, and may have to design enhanced processes and controls to address issues identified through this review. Due to the identification of material weaknesses in Fiscal 2019, our management concluded that our disclosure controls and procedures and internal controls over financial reporting were not effective as of February 1, 2020. During Fiscal 2020, we were able to remediate the material weaknesses and for Fiscal 2020, and based on its evaluation of our disclosure controls and procedures and internal controls over financial reporting, our management has concluded that our disclosure controls and procedures and internal controls over financial reporting were effective as of January 30, 2021. If we identify additional material weaknesses in our internal controls over financial reporting, if our management is unable to conclude that our disclosure controls and procedures and internal controls over financial reporting are effective, or once we are no longer an "non-accelerated filer" if our independent accountants are unable to attest to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common shares could be negatively affected. We could also become subject to investigations by Nasdaq, the SEC, or other regulatory authorities, which could require additional financial and management resources.

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 the U.S. federal and state tax authorities as well as Canadian federal, provincial and local 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 a number of 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. Although due to our entry into CCAA, the CRA will not be able to impose cash penalties, they will still have the authority to require us to decrease our available net operating loss carryforwards. A recent CRA transfer pricing audit indicates a difference in the interpretation of the economics of the arrangement. 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 auditors may find we owe may materially affect our financial position and financial results in the period or periods for which such determination is made.

We currently report our financial results under IFRS, which differs in certain significant respects from U.S. GAAP.

We report our financial statements under IFRS. There have been and there may in the future certain significant differences between IFRS and U.S. GAAP, including but not limited to differences related to revenue recognition, share-based compensation expense, income tax, impairment of long-lived assets and earnings per share. As a result, our financial information and reported earnings for historical or future periods could be significantly different if they were prepared in accordance with U.S. GAAP. As a result, you may not be able to meaningfully compare our financial statements under IFRS with those companies that prepare financial statements under U.S. GAAP.

Risks Relating to Ownership of Our Common Shares

If we fail to comply with the continued listing requirements of the Nasdaq Stock Market, it could result in our common stock being delisted, which could adversely affect the market price and liquidity of our securities and could have other adverse effects.

Our common stock is currently listed for trading on The Nasdaq Global Select Market ("Nasdaq"). We must satisfy Nasdaq's continued listing requirements, including, among others, a minimum stockholders' equity of $10,000,000, and a minimum bid price for our common stock of $1.00 per share, or risk possibly delisting, which could have a material adverse effect on our business.

On August 6, 2020, the Company received a notification letter (the "Stockholders' Equity Notice") from the Listing Qualifications Staff (the "Staff") of Nasdaq indicating that the Company's stockholders' equity of $(17,604,000), as reported in its Quarterly Report on Form 10-Q for the period ended May 2, 2020 did not satisfy the Nasdaq Global Market continued listing requirement set forth in Nasdaq Listing Rule 5450(b)(1)(A), which requires companies listed on the Nasdaq Global Market to maintain a minimum of US $10,000,000 in stockholders' equity. The Stockholders' Equity Notice had no immediate effect on the listing of the Company's common stock. The Company had until September 21, 2020 to submit to Nasdaq a plan to regain compliance with Nasdaq Listing Rule 5450(b)(1)(A), which it did as noted below.

On August 10, 2020, the Company received a notification letter (the "Bid Price Notice") from Nasdaq saying that the Company was not in compliance with the minimum bid price requirement under Nasdaq Listing Rule 5450(a)(1). The Bid Price Notice had no immediate effect on the listing of the Company's common stock on Nasdaq and the Company had until February 8, 2021 to regain compliance, which it did as noted below

On October 15, 2020, the Company received a letter from Nasdaq saying that it had regained compliance with Listing Rule 5450(a)(1) as the closing bid price of the Company's common stock had been greater than $1.00 for 10 consecutive business days, from September 30, 2020 to October 14, 2020.

Separately, from the previous noted letter received on August 6, 2020, Nasdaq had notified the Company that it did not comply with Listing Rule 5450(b)(1)(A); however, on October 15, 2020, Nasdaq determined that the Company met the alternative continued listing requirements under Rule 5450(b), wherein the Company met the minimum $50 million in total assets and $50 million in total revenue alternative requirement under Listing Rule 5450(b)(3). As a result, the Company had met the requirements for continued listing, and that both the Bid Price Notice and Stockholders' Equity Notice were closed.

The Company is now in compliance with Nasdaq's continued listing requirements; however, in the event other listing rules are breached, a delisting could make it more difficult to buy or sell our securities and to obtain accurate quotations, and the price of our common stock could suffer a material decline. In addition, a delisting would impair our ability to raise capital through the public markets, could deter broker-dealers from making a market in or otherwise seeking or generating interest in our securities and might deter certain institutions and persons from investing in our securities at all.

Nasdaq has the discretionary authority to suspend or terminate our listing as a result of the Restructuring Plan

Under Nasdaq Rule 5110(b), Nasdaq may use its discretionary authority to suspend or terminate the listing of our common stock in that we have filed for protection under the CCAA, which is comparable to United States federal bankruptcy laws, even though our securities may otherwise meet all enumerated criteria for continued listing on Nasdaq. In the event that Nasdaq's Listing Qualifications Department determines that the listing of our common stock will be suspended or terminated, we will have the right to request a hearing before the Nasdaq Hearings Panel in order to review the matter, by submitting a request in writing within seven calendar days of the date of the notification of suspension or termination of the listing. Under Nasdaq Rules, any such hearing before the Nasdaq Hearings Panel will generally take place within 45 days of the written request. In connection with our announcement of the Restructuring Plan, we held discussions on July 8 and July 9, 2020 with Nasdaq's Listing Qualifications Department with respect thereto. We subsequently received written requests from the Listing Qualifications Department for information with respect to the Restructuring Plan, to assist Nasdaq in its ongoing review, and provided the requested information to Nasdaq. We have not received a notification of suspension or termination of the listing of our common stock from Nasdaq. Any delisting of our common stock from Nasdaq would have the consequences set out in the paragraph immediately above. In the event that Nasdaq determines to continue our listing during the Restructuring Plan, we must nevertheless satisfy all requirements for initial listing on Nasdaq.

Our largest shareholder owns 46% of our common shares, which may limit our minority shareholders' ability to influence corporate matters.

Our largest shareholder, Rainy Day Investments, Ltd. ("Rainy Day") owns 46% 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 of our assets, require approval of at least two thirds of 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 from our initial public offering to April 29, 2021.

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:

- inability to regain and maintain compliance with Nasdaq's listing requirements;
- conditions or trends affecting our industry or the economy globally, such as the COVID-19 pandemic;
- investors' perceptions due to our independent accountants' inclusion of a "going concern" explanatory paragraph in their report on our financial statements as of and for the year ended January 30, 2021;
- inability to quickly remediate material weaknesses or the continued identification of material weaknesses;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, 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;
- timing of the reopening of our stores and the levels of comparable sales;
- 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 as a result 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 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 the majority 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. A majority 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 Securities Act. Investors 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.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.

As discussed above, we are a foreign private issuer, and therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act. The determination of foreign private issuer status is made annually on the last business day of an issuer's most recently completed second fiscal quarter, and, accordingly, the next determination will be made with respect to us on August 1, 2021. We would lose our foreign private issuer status if, for example, more than 50% of our common shares is directly or indirectly held by residents of the United States on August 1, 2021 and we fail to meet additional requirements necessary to maintain our foreign private issuer status. If we lose our foreign private issuer status on this date, we will be required to file with the SEC periodic reports and registration statements on U.S. domestic issuer forms beginning at the end of Fiscal 2021, which are more detailed and extensive than the forms available to a foreign private issuer. We will also have to mandatorily comply with U.S. federal proxy requirements, and our officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. In addition, we will lose our ability to rely upon exemptions from certain corporate governance requirements under the listing rules of The NASDAQ Global Market. As a U.S. listed public company that is not a foreign private issuer, we will incur significant additional legal, accounting and other expenses that we do not incur as a foreign private issuer, and accounting, reporting and other expenses in order to maintain a listing on a U.S. securities exchange. These expenses will relate to, among other things, the obligation to reconcile our financial information that is reported according to IFRS to U.S. GAAP and to report future results according to U.S. GAAP.

There could be adverse tax consequence for our shareholders in the United States if we are a passive foreign investment company.

Under United States federal income tax laws, if a company is, or for any past period was, a passive foreign investment company ("PFIC"), it could have adverse United States federal income tax consequences to U.S. shareholders even if the company is no longer a PFIC. The determination of whether we are a PFIC is a factual determination made annually based on all the facts and circumstances and thus is subject to change, and the principles and methodology used in determining whether a company is a PFIC are subject to interpretation. While we do not believe that we currently are or have been a PFIC, we could be a PFIC in the future. United States purchasers of our common shares are urged to consult their tax advisors concerning United States federal income tax consequences of holding our common shares if we are considered to be a PFIC.

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If we are a PFIC, U.S. holders would be subject to adverse U.S. federal income tax consequences, such as ineligibility for any preferred tax rates on capital gains or on actual or deemed dividends, interest charges on certain taxes treated as deferred, and additional reporting requirements under U.S. federal income tax laws or regulations. Whether or not U.S. holders make a timely qualified electing fund, or QEF, election or mark-to-market election may affect the U.S. federal income tax consequences to U.S. holders with respect to the acquisition, ownership and disposition of our common shares and any distributions such U.S. holders may receive. Investors should consult their own tax advisors regarding all aspects of the application of the PFIC rules to our common shares.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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. See “Item 1. Business — Warehouse and Distribution Facilities” above for further information.

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 30, 2021, we operated 18 company-operated stores located in Canada consisting of approximately 15,000 gross square feet. All of 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 as of January 30, 2021:

Locations in Canada	Number of Stores
Alberta	3
British Columbia	1
Manitoba	1
New Brunswick	1
Ontario	5
Qu bec	7
Total	**18**

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Except as noted in connection with our Restructuring Plan, we are not presently a party to any legal proceedings, government actions, administrative actions, investigations or claims that are pending against us or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business, financial condition or operating results. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. See “Item 1. Business — Our Company” and “Item 1A. Risk Factors – Risks Associated with the Restructuring Plan” above for further information about our Restructuring Plan and the related legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common shares have been listed on the NASDAQ Global Market under the symbol “DTEA” since June 2015. Prior to that date, there was no public trading of our common shares. As of April 26, 2021, there were approximately 13 holders of record of our common shares. Excluded from the number of stockholders of record are stockholders who hold shares in “nominee” or “street” name. The closing price per share of the Company’s common shares as of April 26, 2021, as reported under the NASDAQ Global Market Exchange, was $3.31.

Voting Rights

Each holder of Common Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Company and to vote thereat, except meetings at which only holders of a specified class of shares (other than Common Shares) or specified series of share are entitled to vote. At all meetings of which notice must be given to the holders of the Common Shares, each holder of Common Shares shall be entitled to one vote in respect of each Common Share held by such holder.

Dividends

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive any dividend declared by the Company.

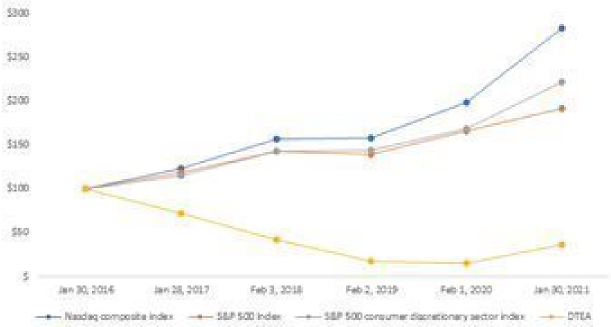
We have never declared or paid regular cash dividends on our common shares. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on a number of factors, including our earnings, capital requirements, overall financial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

Liquidation, Dissolution or Winding-up

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

Stock Performance Graph

The stock performance graph below compares cumulative total return on DAVIDsTEA common shares to the cumulative total return of the NASDAQ Composite Index, S&P 500 Index and S&P 500 Consumer Discretionary Sector Index from January 30, 2016 through January 30, 2021. The graph assumes an initial investment of $100 in DAVIDsTEA and the NASDAQ Composite Index, S&P 500 Index and S&P 500 Consumer Discretionary Sector Index as of January 30, 2016. The performance shown on the graph below is not intended to forecast or be indicative of possible future performance of our common shares.



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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. The selected consolidated financial data as of and for the years ended January 30, 2021 and February 1, 2020 are derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data as of and for the years ended February 2, 2019, February 3, 2018 and January 28, 2017 are derived from audited consolidated financial statements not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected for future periods. Our financial statements have been prepared in accordance with IFRS. These principles differ in certain respects from U.S. GAAP.

This selected consolidated financial data should be read in conjunction with the disclosures set forth under “Risk Related to Our Business and Our Industry” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto.

	For the year ended				
	January 30, 2021	**February 1, 2020**	**February 2 2019**	**February 3, 2018**	**January 28, 2017**
(in thousands, except share information)					
Consolidated statements of income (loss) data:					
Sales	**$ 121,686**	$ 196,462	$ 212,753	$ 224,015	$ 215,984
Cost of sales	**71,953**	87,886	114,774	116,772	107,534
Gross profit	**49,733**	108,576	97,979	107,243	108,450
Selling, general and administration expenses	**46,464**	135,306	125,722	131,930	114,756
Restructuring plan activities, net	**56,327**	—	—	—	—
Results from operating activities	**(53,058)**	(26,730)	(27,743)	(24,687)	(6,306)
Finance costs	**3,273**	6,751	1,614	2,371	76
Finance income	**(399)**	(784)	(700)	(567)	(479)
Loss before income taxes	**(55,932)**	(32,697)	(28,657)	(26,491)	(5,903)
Provision for (recovery of) income tax	**—**	(1,500)	4,882	2,010	(2,235)
Net loss	**$ (55,932)**	$ (31,197)	$ (33,539)	$ (28,501)	$ (3,668)
Weighted average number of shares outstanding - basic	**26,168,848**	26,056,332	25,967,836	25,716,186	24,699,290
Net loss per share:					
Basic and fully diluted	**$ (2.14)**	$ (1.20)	$ (1.29)	$ (1.11)	$ (0.15)
Consolidated balance sheet data (at year end):					
Cash	**$ 30,197**	$ 46,338	$ 42,074	$ 63,484	$ 64,440
Total assets	**$ 81,242**	$ 139,659	$ 122,500	$ 147,936	$ 174,334
Total liabilities	**$ 112,533**	$ 116,310	$ 55,044	$ 46,568	$ 40,884
Total equity (deficiency)	**$ (31,291)**	$ 23,349	$ 67,456	$ 101,368	$ 133,450

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Preface

In preparing this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), we have taken into account all information available to us up to April 30, 2021, the date of this MD&A. The audited annual 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 30, 2021.

All financial information contained in this annual MD&A and in the audited annual consolidated financial statements has been prepared in accordance with IFRS, except for certain non-GAAP information discussed in this Annual Report on Form 10-K. As a foreign private issuer, we are permitted to file our audited consolidated financial statements with the SEC under IFRS without a reconciliation to U.S. GAAP and as a result, we do not prepare a reconciliation of our results to U.S. GAAP. It is possible that certain of our accounting policies could be different from GAAP. All monetary amounts in this MD&A are expressed in Canadian dollars, except for share and per share data and where otherwise indicated.

This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto of the Company as of January 30, 2021 and February 1, 2020 and for the years ended January 30, 2021, February 1, 2020, and February 2, 2019 which are contained in this Annual Report on Form 10-K.

Business Update

We participate in a large and growing global tea market which, combined with the relatively low percentage of tea sales in North America, makes the market opportunity very attractive.

Looking back, we ended Fiscal 2019 with revenues of $196.5 million, a decline of 8% over the prior year. Accumulated net losses for the three-year period ended February 1, 2020 amounted to $93.2 million. Our strategy entering Fiscal 2020 was to stabilize our business from these unfavorable trend lines by playing to our core strengths and improving operational execution. Our online and emerging wholesale business represented opportunities to strengthen our business, while continuing to innovate and expand our product portfolio. Over 78% of Fiscal 2019 revenues were generated from our 230 brick-and-mortar stores. These stores were the source of significant losses which were anchored by commercial leases that are difficult to modify. Notwithstanding attempts to right-size our store network, we were not making enough of an impact to stem the losses from our negotiation efforts alone.

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

Although we continued to offer our products directly to consumers through our online store and in supermarkets and drugstores across Canada, it was unlikely that consumers would continue to purchase our products at previous volumes through these alternative channels. Furthermore, the duration and impact of the COVID-19 pandemic is unknown and the influence on consumer shopping behavior and consumer demand, including online shopping, continues to evolve.

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, we obtained the Initial Order pursuant to the CCAA from the Québec Superior Court and announced that we were implementing the Restructuring Plan under the CCAA in order to accelerate our transition to predominantly an online retailer and wholesaler of high-quality teas and accessories. Among other things, the Initial Order provided for the appointment of PwC as Monitor in the CCAA proceedings.

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

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

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

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

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

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

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

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

We ended Fiscal 2020 with revenues of $121.7 million, a decline of $74.8 million and 38% from Fiscal 2019 and incurred a net loss of $55.9 million versus a loss of $31.2 million in the prior year. After excluding a series of adjustments which include $56.3 million of restructuring charges, Adjusted EBITDA in Fiscal 2020 was $9.7 million versus $11.4 million in the prior year. Furthermore, sequential Adjusted EBITDA has trended favorably since the second quarter of Fiscal 2020. For Fiscal 2020, e-commerce and wholesale sales represented 80% of total sales as opposed to 22% in prior year.

The Company's current liabilities total $112.2 million as at January 30, 2021 and we held cash and accounts and other receivables of $36.4 million. The Company does not currently have any third-party credit facilities available with which to meet any future financial obligations. Furthermore, funds required to satisfy creditors upon exit of CCAA are expected to be significant and will place increased operating pressure on the organization, in light of its ongoing transformation efforts.

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

Accounting Periods

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 Annual Report on Form 10-K, by the calendar year in which the fiscal year commenced. All references herein to the Company's fiscal years are as follows:

Fiscal year	Year ended / ending	Number of weeks
Fiscal 2016	January 28, 2017	52
Fiscal 2017	February 3, 2018	53
Fiscal 2018	February 2, 2019	52
Fiscal 2019	February 1, 2020	52
Fiscal 2020	January 30, 2021	52

Overview

DAVIDsTEA offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 2500 grocery stores and pharmacies, and 18 company-owned stores across Canada. We offer primarily proprietary tea blends that are exclusive to DAVIDsTEA, 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.

Factors Affecting Our Performance

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

Fiscal 2020 Highlights

During Fiscal 2020, sales declined by $74.8 million and 38% over the prior year to $121.7 million. Net loss increased by $24.7 million to $55.9 million for the year from a net loss of $31.2 million in Fiscal 2019. After excluding a series of adjustments which include $56.3 million of restructuring charges, Adjusted EBITDA in Fiscal 2020 was $9.7 million versus $11.4 million in the prior year. Furthermore, sequential Adjusted EBITDA has trended favorably since the second quarter of Fiscal 2020. For Fiscal 2020, e-commerce and wholesale sales represented 80% of total sales as opposed to 22% in prior year.

How We Assess Our Performance

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

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

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

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

☐ our ability to anticipate and respond effectively to consumer preference, buying and economic trends;

☐ our ability to provide a product offering that generates new and repeat visits online and in our other channels;

☐ the customer experience we provide online and in our other channels;

☐ the level of customer traffic to our website and our online presence more generally;

☐ the number of customer transactions and average ticket online;

☐ the pricing of our tea, tea accessories; and

☐ our ability to obtain, manufacture and distribute product efficiently.

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

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

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

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

We present Adjusted selling, general and administration expenses as a supplemental measure because we believe it facilitates a comparative assessment of our selling, general and administration expenses under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”, of this Form 10-K (the “MD&A”).

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

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

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

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

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

Selected Operating and Financial Highlights

Results of Operations

Our financial results for the fourth quarter and year include the impact of our Restructuring Plan which began on July 8, 2020 and July 9, 2020 when we obtained the Initial Order pursuant to the CCAA from the Québec Superior Court and when we received protection from creditor action against our assets in the United States from the United States Bankruptcy Court for the District of Delaware, respectively. On July 10, 2020, we sent notices to terminate leases for 82 of our stores in Canada and all 42 of our stores in the United States. These lease terminations were effective on August 9, 2020. On July 30, 2020, we sent notices to terminate leases for an additional 82 of our stores in Canada. These lease terminations were effective on August 29, 2020. Our retail footprint now includes 18 stores in Canada which we reopened on August 21, 2020.

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Sales during the fourth quarter of $40.2 million declined by $33.3 million or 45.3% over the prior year quarter due primarily to the reduction in our retail store footprint. Adjusted EBITDA in the fourth quarter of Fiscal 2020 was $5.4 million compared to $10.0 million in the prior year quarter.

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 30, 2021	**February 1, 2020**	**January 30, 2021**	**February 1, 2020**
Consolidated statement of income (loss) data:				
Sales	**$ 40,189**	$ 73,538	**$ 121,686**	$ 196,462
Cost of sales	**24,544**	34,457	**71,953**	87,886
Gross profit	**15,645**	39,081	**49,733**	108,576
Selling, general and administration expenses	**10,581**	45,050	**46,464**	135,306
Restructuring plan activities, net	**32,310**	—	**56,327**	—
Results from operating activities	**(27,246)**	(5,969)	**(53,058)**	(26,730)
Finance costs	**13**	1,446	**3,273**	6,751
Finance income	**(37)**	(214)	**(399)**	(784)
Loss before income taxes	**(27,222)**	(7,201)	**(55,932)**	(32,697)
Recovery of income tax	**—**	(1,500)	**—**	(1,500)
Net loss	**$ (27,222)**	$ (5,701)	**$ (55,932)**	$ (31,197)
Percentage of sales:				
Sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**61.1%**	46.9%	**59.1%**	44.7%
Gross profit	**38.9%**	53.1%	**40.9%**	55.3%
Selling, general and administration expenses	**26.3%**	61.3%	**38.2%**	68.9%
Restructuring plan activities, net	**80.4%**	0.0%	**46.3%**	0.0%
Results from operating activities	**(67.8%)**	(8.1%)	**(43.6%)**	(13.6%)
Finance costs	**0.0%**	2.0%	**2.7%**	3.4%
Finance income	**(0.1%)**	(0.3%)	**(0.3%)**	(0.4%)
Loss before income taxes	**(67.7%)**	(9.8%)	**(46.0%)**	(16.6%)
Recovery of income tax	**0.0%**	(2.0%)	**0.0%**	(0.8%)
Net loss	**(67.7%)**	(7.8%)	**(46.0%)**	(15.9%)
Other financial and operations data:				
Adjusted EBITDA (1)	**$ 5,384**	$ 9,971	**$ 9,650**	$ 11,359
Adjusted EBITDA as a percentage of sales	**13.4%**	13.6%	**7.9%**	5.8%
Adjusted SG&A (1)	**$ 11,631**	$ 34,346	**$ 48,397**	$ 117,526
Adjusted results from operating activities (1)	**$ 4,014**	$ 4,813	**$ 1,337**	$ (8,850)
Adjusted net income (loss) (1)	**$ 4,039**	$ 3,503	**$ (1,538)**	$ (14,917)

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

Non-IFRS financial measures

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

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

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

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

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

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

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

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

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

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

	For the three months ended		For the twelve months ended	
	January 30, 2021	**February 1, 2020**	**January 30, 2021**	**February 1, 2020**
Selling, general and administration expenses	**$ 10,581**	$ 45,050	**$ 46,464**	$ 135,306
Impairment of property and equipment and right-of-use assets (a)	**—**	(10,704)	**(2,561)**	(17,780)
Government emergency wage subsidy (b)	**1,050**	—	**4,494**	—
Adjusted selling, general and administration expenses	**$ 11,631**	$ 34,346	**$ 48,397**	$ 117,526

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

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

	For the three months ended		For the twelve months ended	
	January 30, 2021	**February 1, 2020**	**January 30, 2021**	**February 1, 2020**
Results from operating activities	**$ (27,246)**	$ (5,969)	**$ (53,058)**	$ (26,730)
Impairment of property and equipment and right-of-use assets (a)	**—**	10,704	**2,561**	17,780
Loss on disposal of property and equipment and right-of-use assets	**—**	78	**—**	100
Restructuring plan activities, net (b)	**32,310**	—	**56,327**	—
Government emergency wage subsidy (c)	**(1,050)**	—	**(4,494)**	—
Adjusted results from operating activities	**$ 4,014**	$ 4,813	**$ 1,337**	$ (8,850)

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

Reconciliation of Net income (loss) to Adjusted EBITDA

	For the three months ended		For the twelve months ended	
	January 30, 2021	**February 1, 2020**	**January 30, 2021**	**February 1, 2020**
Net loss	**$ (27,222)**	$ (5,701)	**$ (55,932)**	$ (31,197)
Finance costs	**13**	1,446	**3,273**	6,751
Finance income	**(37)**	(214)	**(399)**	(784)
Depreciation and amortization	**1,327**	4,872	**7,493**	19,396
Recovery of income tax	**—**	(1,500)	**—**	(1,500)
EBITDA	**$ (25,919)**	$ (1,097)	**$ (45,564)**	$ (7,334)
Additional adjustments :				
Stock-based compensation expense (a)	**42**	286	**820**	813
Impairment of property and equipment and right-of-use assets (b)	**—**	10,704	**2,561**	17,780
Loss on disposal of property and equipment	**—**	78	**—**	100
Restructuring plan activities, net (c)	**32,310**	**—**	**56,327**	**—**
Government emergency wage subsidy (d)	**(1,050)**	—	**(4,494)**	—
Adjusted EBITDA	**$ 5,384**	$ 9,971	**$ 9,650**	$ 11,359

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

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

	For the three months ended		For the twelve months ended	
	January 30, 2021	**February 1, 2020**	**January 30, 2021**	**February 1, 2020**
Net loss	**$ (27,222)**	$ (5,701)	**$ (55,932)**	$ (31,197)
Impairment of property and equipment and right-of-use assets (a)	**—**	10,704	**2,561**	17,780

Restructuring plan activities, net (b)	**32,310**	—	**56,327**	—
Government emergency wage subsidy (c)	**(1,050)**	—	**(4,494)**	—
Recovery for income tax (d)	**—**	(1,500)	**—**	(1,500)
Adjusted Net income (loss)	**$ 4,038**	$ 3,503	**$ (1,538)**	$ (14,917)

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(a) Represents costs related to impairment of property and equipment and right-of-use assets and intangibles assets for stores.
(b) Represents the costs related to the Restructuring plan activities, net
(c) Represents the wages subsidy received from the Canadian government under the COVID-19 Economic Response Plan.
(d) Represents revised provision for uncertain tax position as a result of a settlement reached with the taxation authorities.

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

	For the three months ended		For the twelve months ended	
	January 30, 2021	February 1, 2020	January 30, 2021	February 1, 2020
Weighted average number of shares outstanding, fully diluted	26,228,206	26,080,529	**26,168,848**	26,056,332
Adjusted weighted average number of shares outstanding, fully diluted	27,140,065	26,769,190	**26,168,848**	26,056,332
Net loss	$ (27,222)	$ (5,701)	**$ (55,932)**	$ (31,197)
Adjusted net income (loss)	$ 4,039	$ 3,503	**$ (1,538)**	$ (14,917)
Net loss per share, fully diluted	$ (1.00)	$ (0.21)	**$ (2.14)**	$ (1.20)
Adjusted Net income (loss) per share, fully diluted	$ 0.15	$ 0.13	**$ (0.06)**	$ (0.57)

Operating Results for the Fourth Quarter of Fiscal 2020 Compared to the Operating Results for the Fourth Quarter of Fiscal 2019

Sales. Sales decreased 45.3% to $40.2 million from $73.5 million in the fourth quarter of Fiscal 2019. On March 17, 2020, in response to the COVID-19 pandemic, the Company temporarily closed all its retail stores in Canada and the United States, and subsequently, as part of its formal Restructuring Plan, exited all of its brick and mortar stores except for 18 Canadian stores which were reopened on August 21, 2020. Accordingly, brick and mortar sales for the quarter declined when compared to the prior year quarter by $50.5 million or 90.7% to $5.2 million. Sales from e-commerce and wholesale channels increased by $17.1 million or 95.9% to $35.0 million, from $17.9 million in the prior year quarter. E-commerce and wholesale sales represented 87.1% of sales compared to 24.3% of sales in the prior year quarter.

Gross Profit. Gross profit of $15.6 million for the three months ended January 30, 2021 decreased by $23.4 million or 60.0% from the prior year quarter due primarily to a decline in sales during the period. As the Company pivots to a digital-first strategy, the cost of delivery and distribution that is included in arriving at gross profit will compare unfavorably to prior periods that were predominantly focused on retail sales distribution. The significant increase in e-commerce sales resulted in an increase of $1.7 million in delivery and distribution costs, thereby negatively impacting gross profit percentage. As a result, gross profit as a percentage of sales declined to 38.9% for the three-month period ended January 30, 2021 from 53.1% in the prior year quarter. We expect that the increased cost to deliver online purchases will be less than the selling expenses incurred in a brick and mortar environment that have been historically included as part of Selling, general and administration expenses.

Selling, General and Administration Expenses ("SG&A"). Selling, general and administration expenses decreased by $34.5 million or 76.5% to $10.6 million in the three months ended January 30, 2021 from the prior year quarter. Excluding the impact of the $1.1 million wage subsidy received under the Canadian government COVID-19 Economic Response Plan in Fiscal 2020, and the impact in Fiscal 2019 of the impairment of property and equipment and right-of use assets amounting to $10.7 million, Adjusted SG&A decreased by $22.7 million to $11.6 million. In connection with our Restructuring Plan, we terminated the leases for all of our stores in North America except for 18 Canadian stores which reopened on August 21, 2020. As a result, wages, salaries and employee benefits were reduced by $13.9 million, and we realized a reduction of $3.5 million in amortization expenses due to a lower right-of-use asset value at the beginning of the period. Adjusted SG&A as a percentage of sales in the quarter decreased to 28.9% from 46.7% in the prior year quarter.

Results from Operating Activities. Loss from operating activities was $27.2 million as compared to a loss of $6.0 million in the prior year quarter. Excluding the impact of the Restructuring Plan announced on July 8, 2020, the wage subsidy received from the Canadian government under the COVID-19 Economic Response Plan, the impact of the impairment of property and equipment and right-of-use assets and the loss on disposal of property and equipment, Adjusted operating income amounted to $4.0 million in the three-month period ended January 30, 2021 compared to $4.8 million in the prior year quarter. This resulting decrease of $0.8 million is explained by a reduction of the gross profit of $23.4 million, partially offset by a reduction in wages, salaries and employee benefits from stores and head office, amounting to $13.9 million, a reduction of $3.5 million in amortization expense due to a lower right-of-use asset value at the beginning of the period, and a reduction of other brick and mortar selling expenses of $3.9 million.

Finance Costs. Finance costs amounted to almost nil in the three months ended January 30, 2021, a decrease of $1.4 million from the prior year quarter. The interest expense relates to the accounting for lease liabilities with variable lease arrangements and has decreased from the prior year quarter.

Finance Income. Finance income of almost nil is derived mainly from interest on cash on hand and has decreased slightly $0.2 million from the prior year quarter.

EBITDA and Adjusted EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was negative $25.9 million in the quarter ended January 30, 2021 compared to a negative $1.1 million in the prior year quarter representing a decrease of $24.8 million over Fiscal 2019. Adjusted EBITDA for the quarter ended January 30, 2021, which excludes the impact of stock-based compensation expense, the impairment of property and equipment and right-of-use assets, the Restructuring plan activities, net, the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the loss on disposal of property and equipment amounted to $5.4 million compared to $10.0 million for the same period in the prior year. The decrease in Adjusted EBITDA, of $4.6 million, is an outcome of the decline in gross profit partially offset by the reduction in adjusted SG&A.

Recovery of Income Tax. Recovery of income tax amounted to nil compared to $1.5 million in the prior year quarter. The prior year recovery is due to an adjustment of the provision for uncertain tax provision.

Net Loss. Net loss was $27.2 million in the quarter ended January 30, 2021 compared to a Net loss of $5.7 million in the prior year quarter. Adjusted net income, which excludes the Restructuring plan activities, the subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, the impairment of property and equipment and right-of-use assets, and the recovery for uncertain tax positions amounted to $4.0 million compared to $3.5 million in the prior year quarter. This $0.5 million improvement is driven by the same reasons mentioned above in “Results from operating activities”.

Fully Diluted Net Loss per Share. Fully diluted net loss per common share was $1.00 compared to a net loss of $0.21 in the fourth quarter of Fiscal 2019. Adjusted fully diluted net income per common share, which is Adjusted net income on a fully-diluted weighted average shares outstanding basis, was $0.15 per share compared to $0.13 per share in the same quarter of prior year.

Cash on Hand. At the end of the fourth quarter of Fiscal 2020, the Company had cash amounting to $30.2 million. Our cash position enables us to execute our strategy and invest further in funding working capital, transformative technology improvements and related infrastructure. Upon creditor acceptance of a Plan of Arrangement and ratification by the Court, we will have to fund the payment of this settlement amount from cash on hand as the Company does not have any credit facilities.

Fiscal Year Ended January 30, 2021 Compared to Fiscal Year Ended February 1, 2020

Sales. Sales for Fiscal 2020 decreased by 38.1%, or by $74.8 million, to $121.7 million from $196.5 million in Fiscal 2019. On March 17, 2020, in response to the COVID-19 pandemic, the Company announced the temporary closures of all its retail stores in Canada and the United States, and subsequently, as part of its Restructuring Plan, exited all of its brick and mortar stores except for 18 Canadian stores which were reopened on August 21, 2020. Accordingly, brick and mortar sales declined by $129.7 million or 84.1% when compared to the prior year. Sales from our e-commerce and wholesale channels increased $54.9 million or 129.8% to $97.2 million, from $42.3 million in prior year as we shifted to a digital first strategy to address consumers changing shopping habits. For Fiscal 2020, e-commerce and wholesale sales represented 79.9% of total sales as opposed to 21.5% in prior year.

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Gross Profit. Gross profit decreased by 54.2% and $58.8 million, to $49.7 million in Fiscal 2020 in comparison to Fiscal 2019 due primarily to a decline in sales during the year. Gross profit as a percentage of sales declined to 40.9% for the year ended January 30, 2021 from 55.3% in the prior year. As the Company pivots to a digital first strategy, the cost of delivery and distribution that is included in arriving at gross profit will compare unfavorably to prior periods that were predominantly focused on retail sales distribution. The significant increase in e-commerce sales during the year ended January 30, 2021 resulted in an increase of $11.0 million in delivery and distribution costs. We expect that the increased cost to deliver online purchases will be less than the selling expenses incurred in a brick and mortar environment that have been historically included as part of Selling, general and administration expenses.

Selling, General and Administration Expenses. SG&A decreased by $88.8 million or 65.7%, to $46.5 million in Fiscal 2020. Excluding the impact of the impairment of property and equipment and right-of-use assets, and the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan in the year ended January 30, 2021 which amounted to $1.9 million, Adjusted SG&A decreased by $69.1 million for the year ended January 30, 2021. This is mostly explained by the closure of our stores effective March 17, 2020 and the reopening of 18 stores on August 21, 2020. As a result, wages, salaries and employee benefits were reduced by $45.1 million and we realized a reduction of $11.9 million in amortization expense due to a lower right-of-use asset value at the beginning of Fiscal 2020. As a percentage of sales, Adjusted SG&A decreased to 39.8% from 59.8% due to lower selling expenses resulting from the now permanent closure of our 206 stores effective March 17, 2020 and the reopening of 18 stores on August 21, 2020.

Results from Operating Activities. Loss from operating activities in Fiscal 2020 was $53.1 million as compared to a loss of $26.7 million in Fiscal 2019. Excluding the impact of the Restructuring plan activities, the impairment of property and equipment and right-of-use assets, the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the loss on disposal of property and equipment, Adjusted operating income of $1.3 million compared to a loss of $8.9 million in Fiscal 2019. Excluding the impact of the Restructuring plan activities, the impairment of property and equipment and right-of-use assets, the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the loss on disposal of property and equipment, Adjusted operating income of $1.3 million compared to a loss of $8.9 million in Fiscal 2019. This resulting improvement of $10.2 million is explained by reduction in wages, salaries and employee benefits, from stores and head office, amounting to $45.1 million and an $11.9 million reduction in amortization expense due to a lower right-of-use asset value at the beginning of Fiscal 2020, and a reduction of other selling expenses of $9.1 million, partially offset by the reduction of gross profit of $58.8 million.

Finance Costs. Finance costs amounted to $3.3 million in the year ended January 30, 2021, a decrease of $3.5 million from the prior year. The interest expense relates to lease liabilities and has decreased from the prior year due to the store closures and variable rent on remaining stores.

Finance Income. Finance income of $0.4 million is derived mainly from interest on cash on hand and has decreased slightly from $0.8 million in the prior year.

EBITDA and Adjusted EBITDA. EBITDA was negative $45.6 million in the year ended January 30, 2021 compared to negative $7.3 million in Fiscal 2019, representing a decrease of $38.2 million over Fiscal 2019. Adjusted EBITDA for the year ended January 30, 2021, which excludes the impact of stock-based compensation expense, the impairment of property and equipment and right-of-use assets, the Restructuring plan activities, the wage subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, and the loss on disposal of property and equipment amounted to $9.7 million compared to $11.4 million in the same period in the prior year. The decrease in Adjusted EBITDA, of $1.7 million, is an outcome of the decline in gross profit partially offset by the reduction in SG&A.

Recovery of Income Tax. Recovery of income tax amounted to nil compared to $1.5 million in Fiscal 2019. The prior year recovery is due to the adjustment of the provision for uncertain tax provision. Our effective tax rates were nil and 4.6% in Fiscal 2020 and 2019, respectively. The effective tax rate decreased primarily from the increase of the unrecognized deferred income tax assets and an adjustment to the provision for uncertain tax position in the current year.

Net Loss. Net loss was $55.9 million in the year ended January 30, 2021 compared to a net loss of $31.2 million in the prior year. Adjusted net loss, which excludes the impact from the impairment of property and equipment and right-of-use assets, the Restructuring plan activities, the subsidy received from the Canadian Government under the COVID-19 Economic Response Plan, loss on disposal of property and equipment, and the recovery for uncertain tax position was a loss of $1.5 million compared to a loss of $14.9 million in the prior year. This $13.4 million improvement is driven by the same reasons mentioned above in Results from operating activities partially offset by lower recovery for uncertain tax position compared to the prior year.

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Net Loss per Share. Fully diluted net loss per common share was $2.14 in Fiscal 2020 compared to $1.20 in Fiscal 2019. Adjusted fully diluted loss per common share, which is adjusted net loss on a fully-diluted weighted average shares outstanding basis, was $0.06 per share in Fiscal 2020 compared to $0.57 per share in Fiscal 2019.

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.

	For year ended, January 30, 2021				**For year ended, February 1, 2020**			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Sales	**40,189**	**26,225**	**23,031**	**32,242**	**73,538**	**39,493**	**39,167**	**44,265**
Net income (loss)	**(27,222)**	**14,467**	**2,609**	**(45,788)**	**(5,701)**	**(10,830)**	**(11,344)**	**(3,320)**
EBITDA	(25,918)	15,295	5,426	(40,367)	(1,097)	(4,548)	(4,829)	3,142
Adjusted EBITDA	5,384	3,834	1,365	(935)	9,971	(2,241)	361	3,269
Net income (loss) per share - fully diluted	**(1.00)**	**0.54**	**0.10**	**(1.76)**	**(0.21)**	**(0.42)**	**(0.44)**	**(0.13)**
Cash	30,197	21,925	34,285	39,343	46,338	28,044	29,725	35,491
Accounts receivable	6,157	7,669	6,757	4,371	6,062	5,430	3,913	2,909
Prepaid expenses and deposits	14,470	13,400	8,476	4,928	4,542	6,906	9,890	9,164
Inventories	23,468	26,176	24,354	23,450	22,363	32,638	27,893	31,642
Trade and other payables	4,152	3,621	6,460	18,000	20,794	21,155	13,810	15,305

Liquidity and Capital Resources

As at January 30, 2021, we had $30.2 million of cash primarily held by major Canadian financial institutions. Working capital, adjusted for liabilities subject to compromise amounting to $100.6 million, was $62.7 million as at January 30, 2021, compared to $36.4 million as at February 1, 2020. In light of implementing the Restructuring Plan, the Company expects to use cash on hand to pay for professional fees and for the settlement of obligations, which is expected to be significant, upon acceptance, if any, of a plan of arrangement that will be presented to creditors.

Our primary source of liquidity is cash on hand as we have no access to any form of debt financing. Our primary cash needs are to finance working capital and capital expenditures in connection with enhancing the functions and features of our online store. Capital expenditures typically vary depending on the timing of infrastructure-related and technology investments. During Fiscal 2020, capital expenditures totaled $0.9 million. We devoted approximately 53% of our capital expenditures to make continued investments in our technology infrastructure. The remainder of the capital expenditures was used to enhance existing stores.

Our working capital requirements are for the purchase of inventory and payment of payroll and other operating costs. Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. We fund our capital expenditures and working capital requirements from a combination of cash on hand and cash provided by operating activities.

As at January 30, 2021, the Company has financial commitments in connection with the purchase of goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs. Purchase obligations, net of $6.8 million of advances, amounting to $14.1 million (2019 - $11.5 million) are expected to be discharged within 12 months.

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Cash Flow

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

	For the year ended	
	January 30, 2021 $	February 1, 2020 $
Cash flows provided by (used in):		
Operating activities	**(11,269)**	33,108
Financing activities	**(6,003)**	(23,192)
Investing activities	**1,132**	(5,652)
Decrease in cash	**(16,140)**	4,264

Cash Flows Provided by Operating Activities

	For the twelve months ended	
	January 30, 2021 $	February 1, 2020 $
OPERATING ACTIVITIES		
Net loss	**(55,932)**	(31,197)
Items not affecting cash:		
Depreciation of property and equipment	**2,399**	5,411
Amortization of intangible assets	**2,053**	1,934
Amortization of right-of-use assets	**3,041**	12,051
Gain on modification of lease liabilities	**(75,121)**	—
Liabilities subject to compromise	**100,550**	—
Interest on lease liabilities	**3,230**	6,962
Loss on disposal of property and equipment and right-of-use assets	**769**	100
Loss on disposal of intangible assets	**790**	
Impairment of property and equipment and right-of-use assets	**39,960**	17,780
Stock-based compensation expense	**820**	813
Sub-total	**22,559**	13,854
Net change in other non-cash working capital balances related to operations	**(33,828)**	19,254
Cash flows from (used in) operating activities	**(11,269)**	33,108

Cash Flows Provided in Operating Activities. Net cash flows used in Operating activities during the year ended January 30, 2021 amounted to $11.3 million and represented a change of $44.4 million from the prior year. The change is primarily due to the impact of our Restructuring Plan, wherein a majority of our trade vendors have not extended credit terms and instead required deposits and pre-payments for both services and purchases of inventory related goods.

Cash Flows Used in Investing Activities

	For the twelve months ended	
	January 30, 2021 $	February 1, 2020 $
INVESTING ACTIVITIES		
Additions to property and equipment	**(433)**	(1,032)
Additions to intangible assets	**(480)**	(2,594)
Repayment (issuance) of loan from a Company controlled by an executive employee	**2,045**	(2,026)
Cash flows from (used in) investing activities	**1,132**	(5,652)

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Cash Flows Used in Investing Activities. Cash flows provided by investing activities of $1.1 million during the year ended January 30, 2021 increased by $6.8 million compared to prior year. The increase is primarily due to the receipt of cash from repayment of the loan from a Company controlled by an executive employee, partially offset by capital expenditures. Capital expenditures decreased by $2.7 million to $0.9 million for the year ended January 30, 2021, from $3.6 million in the prior year. This decrease was primarily due to lower investment in both leasehold improvements as well as software enhancements.

Cash Flows Provided by Financing Activities

	For the twelve months ended	
	January 30, 2021 $	February 1, 2020 $
FINANCING ACTIVITIES		
Proceeds from issuance of common shares pursuant to exercise of stock options	**4**	14
Payment of lease liabilities	**(6,007)**	(23,206)

Cash flows used in financing activities	**(6,003)**	(23,192)

Cash Flow Provided in Financing Activities. Net cash flows used in financing activities of $6.0 million during the year ended January 30, 2021 represents a reduction of $17.2 million compared to the prior year and due primarily to the non-payment of lease obligations from April 1, 2020 to July 8, 2020 and the termination of our store lease agreements.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for purchase obligations. As at January 30, 2021, the Company has financial commitments in connection with the purchase of goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs. Purchase obligations, net of $6.8 million of advances, amounting to $14.1 million (2019 - $11.5 million) is expected to be discharged within 12 months.

Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of financial statements requires us to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on our reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial position, changes in financial position or results of operations. Our significant accounting policies are discussed under Note 3 to our consolidated financial statements included in this Annual Report.

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. Liabilities subject to compromise

As a result of the termination of leases pursuant to the Restructuring Plan, included in liabilities subject to compromise is a liability related to disclaimed leases of $75.3 million, determined at the reporting date based on an analysis of the nature and carrying value of the underlying liabilities, proof of claim, as well as well as the stage of advancement of the claims identification, resolution and barring process.

Liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims or other events, and is therefore subject to significant estimation uncertainty, as proceedings are in a preliminary stage. Changes to the provision in future periods may be material and will be recorded through earnings.

ii. Recoverability and impairment of non-financial assets

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

Key judgments in applying accounting principles

i. 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).

Critical judgments in applying accounting policies

We believe the following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the amounts recognized in our consolidated financial statements:

i. Going concern uncertainty

In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that raise substantial doubt about the Company’s ability to continue as a going concern, management must estimate future cash flows for a period of at least twelve months following the end of the reporting period by considering relevant available information about the future. In addition, management must make assumptions about what actions it will take to right-size the business. Given that it is difficult to adequately predict future cash flows given the inherent uncertainties concerning the formal restructuring process and the impact of the COVID-19 pandemic, management has concluded that there are material uncertainties related to events or conditions that raise substantial doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

ii. Impairment of non-financial assets

Management is required to make significant judgments in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU. The significant judgments applied by management in determining if stores should be aggregated in a given geographic area to form a CGU include the determination of expected customer behavior, the allocation basis of e-commerce sales to CGUs, and whether customers could interchangeably shop in any of the stores in a given area and whether management views the cash inflows of the stores in the group as interdependent.

iii. Income taxes

The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. The Company establishes provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

iv. Determination of the lease term of leases with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal, including store performance, expected future performance and past business practice. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Recently Issued Accounting Standards

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

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2020. The amendment does not affect lessors.

The amendment is effective as of June 1, 2020 but can be applied immediately in any financial statements—interim or annual—not yet authorised for issue.

In April 2021, the IASB extended the relief to cover rent concessions that reduce lease payments due on or before June 30, 2022.

JOBS Act Exemptions and Foreign Private Issuer Status

Exchange Act Exemptions and Foreign Private Issuer Status

We do not qualify as an "accelerated filer" or "large accelerated filer" as defined in the Exchange Act. Companies that are not an accelerated filer or large accelerated filer may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. This includes an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act. We may take advantage of this exemption until such time as we qualify as an accelerated filer or large accelerated filer. We will qualify (1) as an accelerated filer if we have an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of US$75 million or more, but less than US$700 million, as of the last business day of our most recently completed second fiscal quarter, or (2) as a large accelerated filer if we have an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of US$700 million or more, as of the last business day of our most recently completed second fiscal quarter. We may choose to take advantage of some but not all of these reduced burdens.

We report under the Exchange Act as a non-U.S. company with foreign private issuer status. As long as we qualify as a foreign private issuer under the Exchange Act we will be exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic public companies, including:

- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time;
- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events; and

· Regulation FD, which regulates selective disclosures of material information by issuers.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of **DAVIDsTEA Inc.**

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of **DAVIDsTEA Inc.** [the "Company"] as of January 30, 2021 and February 1, 2020, the related consolidated statements of loss and comprehensive loss, cash flows and equity for each of the three years in the period ended January 30, 2021 and the related notes [collectively referred to as the "consolidated financial statements"]. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 30, 2021 and February 1, 2020 and the results of its operations and its cash flows for each of the three years in the period ended January 30, 2021, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Company's ability to continue as a going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 2 to the consolidated financial statements, on July 8, 2020, the Company announced that it was implementing a restructuring plan under the Companies' Creditors Arrangement Act, and has suffered recurring losses from operations, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Adoption of new accounting standard

As discussed in Note 3 to the consolidated financial statements, effective February 3, 2019, the Company changed its method of accounting for its leases due to the adoption of IFRS 16, *Leases.*

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ["PCAOB"] and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: [1] relates to accounts or disclosures that are material to the financial statements and [2] involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Restructuring Plan Activities – Measurement of liabilities subject to compromise
Description of the matter	As more fully described in Note 1 to the consolidated financial statements, on July 8, 2020, the Company announced that it was implementing a restructuring plan under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA"), and obtained an Initial Order pursuant to the CCAA from the Quebec Superior Court in order to implement the restructuring plan (the "Initial Order"). As of January 30, 2021, the Company has recorded liabilities subject to compromise of $100.6 million. Liabilities subject to compromise represent the liabilities that will ultimately be subject to the plan of arrangement ("allowed claims") and compromise to the Company's creditors, and include disclaimed leases, trade and other payables, and severance costs, as further described in note 13. Trade and other payables and severance costs represent the Company's legal obligations. Disclaimed and modified leases are measured at the Company's best estimate of the allowed claims. Liabilities subject to compromise are measured at the reporting date based on an analysis of the nature and carrying value of the underlying liabilities, proof of claim, as well as the stage of advancement of the claims identification, resolution and barring process. Auditing the estimation of liabilities subject to compromise was especially challenging because of the complexity of accounting for an entity under CCAA, and the magnitude of the liabilities subject to compromise as at January 30, 2021.
How we addressed the matter in our audit	To test the Company's measurement of liabilities subject to compromise, among other procedures, we read the court motions and orders, Monitor's reports, notices to creditors, and corroborated the Company's interpretation of the CCAA regulation. On a sample basis, we performed testing around July 8, 2020 to evaluate the appropriate classification of liabilities as pre-filing and post-filing, and tested the accuracy and completeness of the data by inspecting claims submitted by creditors used to determine allowable claims. In addition, we evaluated management's assessment of the nature and measurement of the underlying liabilities relative to the applicable accounting literature, and performed a search for new or contrary evidence that would affect the estimate including consideration of events after the balance sheet date.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2011.
Montréal, Canada
April 30, 2021

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

		As at	
		January 30, 2021 $	**February 1, 2020 $**
ASSETS			
Current			
Cash		**30,197**	46,338
Accounts and other receivables	[Note 6]	**6,157**	6,062
Inventories	[Note 7]	**23,468**	22,363
Income tax receivable		**55**	1,196
Prepaid expenses and deposits		**14,470**	4,542
Total current assets		**74,347**	80,501
Property and equipment	[Note 8]	**2,309**	17,737

Intangible assets	[Note 9]	**3,929**	6,339
Right-of-use assets	[Note 10]	**657**	35,082
Total assets		**81,242**	139,659
LIABILITIES AND EQUITY			
Current			
Trade and other payables	[Note 11]	**4,152**	20,794
Deferred revenue	[Note 12]	**7,080**	6,852
Liabilities subject to compromise	[Note 13]	**100,550**	—
Current portion of lease liabilities	[Note 10]	**396**	16,434
Total current liabilities		**112,178**	44,080
Non-current portion of lease liabilities	[Note 10]	**355**	72,230
Total liabilities		**112,533**	116,310
Commitments and contingencies			
Equity			
Share capital	[Note 15]	**113,167**	112,843
Contributed surplus		**1,747**	1,577
Deficit		**(148,068)**	(92,278)
Accumulated other comprehensive income		**1,863**	1,207
Total equity (deficiency)		**(31,291)**	23,349
Total liabilities and equity		**81,242**	139,659

See accompanying notes

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DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[In thousands of Canadian dollars, except share information]

		For the year ended		
		January 30, 2021	**February 1, 2020**	**February 2, 2019**
Sales	[Note 22]	**121,686**	196,462	212,753
Cost of sales		**71,953**	87,886	114,774
Gross profit		**49,733**	108,576	97,979
Selling, general and administration expenses	[Note 18]	**46,464**	135,306	125,722
Restructuring plan activities, net	[Note 19]	**56,327**	—	—
Results from operating activities		**(53,058)**	(26,730)	(27,743)
Finance costs	[Note 16]	**3,273**	6,751	1,614
Finance income		**(399)**	(784)	(700)
Loss before income taxes		**(55,932)**	(32,697)	(28,657)
Provision for (recovery of) income tax	[Note 17]	**—**	(1,500)	4,882
Net loss		**(55,932)**	(31,197)	(33,539)
Other comprehensive income (loss):				
Items to be reclassified subsequently to income:				
Realized net loss on forward exchange contracts reclassified to inventory		**—**	—	230
Provision for income tax recovery		**—**	—	(63)
Cumulative translation adjustment		**656**	(290)	(425)
Other comprehensive income (loss), net of tax		**656**	(290)	(258)
Total comprehensive loss		**(55,276)**	(31,487)	(33,797)
Net loss per share:				
Basic	[Note 20]	**(2.14)**	(1.20)	(1.29)
Fully diluted	[Note 20]	**(2.14)**	(1.20)	(1.29)
Weighted average number of shares outstanding				
Basic	[Note 20]	**26,168,848**	26,056,332	25,967,836
Fully diluted	[Note 20]	**26,168,848**	26,056,332	25,967,836

See accompanying notes

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DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	For the year ended January 30, 2021 $	February 1, 2020 $	February 2, 2019 $
OPERATING ACTIVITIES			
Net loss	**(55,932)**	(31,197)	(33,539)
Items not affecting cash:			
Depreciation of property and equipment	**2,399**	5,411	6,904
Amortization of intangible assets	**2,053**	1,934	1,298
Amortization of right-of-use assets	**3,041**	12,051	—
Gain on modification of lease liabilities	**(75,121)**	—	—
Liabilities subject to compromise	**100,550**	—	—
Interest on lease liabilities	**3,230**	6,962	—
Loss on disposal of property and equipment and right-of-use assets	**769**	100	1,875
Loss on disposal of intangible assets	**790**	—	—
Impairment of property and equipment and right-of-use assets	**39,960**	17,780	9,960
Stock-based compensation expense	**820**	813	211
Deferred rent	**—**	—	25
Recovery for onerous contracts	**—**	—	6,282
Amortization of financing fees	**—**	—	64
Accretion on provisions	**—**	—	251
Deferred income taxes	—	—	5,069
Sub-total	**22,559**	13,854	(1,600)
Net change in other non-cash working capital balances related to operations	**(33,828)**	19,254	(11,628)
Cash flows from (used in) operating activities	**(11,269)**	33,108	(13,228)
FINANCING ACTIVITIES			
Proceeds from issuance of common shares pursuant to exercise of stock options	**4**	14	82
Payment of lease liabilities	**(6,007)**	(23,206)	—
Cash flows from (used) in financing activities	**(6,003)**	(23,192)	82
INVESTING ACTIVITIES			
Additions to property and equipment	**(433)**	(1,032)	(3,898)
Additions to intangible assets	**(480)**	(2,594)	(4,366)
Repayment (issuance) of loan from a Company controlled by an executive employee	**2,045**	(2,026)	—
Cash flows from (used in) investing activities	**1,132**	(5,652)	(8,264)
Increase (decrease) in cash during the year	**(16,140)**	4,264	(21,410)
Cash, beginning of the year	**46,338**	42,074	63,484
Cash, end of the year	**30,197**	46,338	42,074
Supplemental Information			
Cash paid for:			
Interest	**—**	50	—
Income taxes (classified as operating activity)	**—**	—	10
Cash received for:			
Interest	**368**	778	650
Income taxes (classified as operating activity)	**870**	2,948	1,774

See accompanying notes.

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED STATEMENTS OF EQUITY

[In thousands of Canadian dollars]

	Share Capital $	Contributed Surplus $	Deficit $	Accumulated Other Comprehensive Income $	Total Equity (Deficiency) $
Balance, February 1, 2020	**112,843**	**1,577**	**(92,278)**	**1,207**	**23,349**
Net loss for the twelve months ended January 30, 2021	**—**	**—**	**(55,932)**	**—**	**(55,932)**
Other comprehensive income	**—**	**—**	**—**	**656**	**656**
Total comprehensive loss	**—**	**—**	**(55,932)**	**656**	**(55,276)**
Issuance of common shares	**5**	**(1)**	**—**	**—**	**4**

Common shares issued on vesting of restricted stock units	**319**	**(649)**	**142**	**—**	**(188)**
Stock-based compensation expense	**—**	**820**	**—**	**—**	**820**
Balance, January 30, 2021	**113,167**	**1,747**	**(148,068)**	**1,863**	**(31,291)**
Balance, February 2, 2019	112,519	1,400	(61,293)	1,497	54,123
Net loss for the twelve months ended February 1, 2020	—	—	(31,197)	—	(31,197)
Other comprehensive loss	—	—	—	(290)	(290)
Total comprehensive loss	—	—	(31,197)	(290)	(31,487)
Issuance of common shares	21	(7)	—	—	14
Common shares issued on vesting of restricted stock units	303	(629)	212	—	(114)
Stock-based compensation expense	—	813	—	—	813
Balance, February 1, 2020	112,843	1,577	(92,278)	1,207	23,349

See accompanying notes

DAVIDsTEA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended January 30, 2021, February 1, 2020 and February 2, 2019

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

1. CORPORATE INFORMATION

The consolidated financial statements of DAVIDsTEA Inc. and its wholly-owned subsidiary, DAVIDsTEA (USA) Inc., (collectively, the “Company”) for the year ended January 30, 2021 were authorized for issue in accordance with a resolution of the Board of Directors on April 30, 2021. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the NASDAQ Global Market under the symbol “DTEA”. The registered office is located at 5430, Ferrier Street, Town of Mount-Royal, Quebec, Canada, H4P 1M2.

The Company offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 2500 grocery stores and pharmacies, and 18 company-owned stores across Canada. We offer primarily proprietary tea blends that are exclusive to DAVIDsTEA, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea. Sales fluctuate from quarter to quarter. Sales are traditionally highest in the fourth fiscal quarter due to the year-end holiday season and tend to be lowest in the second and third fiscal quarters because of lower customer engagement during the summer months.

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

The Company qualifies for the Canada Emergency Wage Subsidy (“CEWS”) under the COVID-19 Economic Response Plan of the Government of Canada. During the year ended January 30, 2021, the Company recognized payroll subsidies of $4.5 million under this wage subsidy program as a reduction in the associated wage costs which the Company incurred, which was recognized in Selling, general and administration expenses.

CCAA Proceedings

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION and GOING CONCERN UNCERTAINTY

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies were consistently applied to all periods presented, other than with respect to the adoption of new accounting standards as disclosed in note 4.

The Company's fiscal year ends on the Saturday closest to the end of January, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. The years ended January 30, 2021, February 1, 2020 and February 2, 2019 cover a 52-week period.

Going Concern Uncertainty

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

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

Although the Company continues to offer its products directly to consumers through its online store and in supermarkets and drugstores across Canada, it is unlikely that customers will purchase its products at previous volumes through these alternative channels. Furthermore, the duration and impact of the COVID-19 pandemic is unknown and may influence consumer shopping behavior and consumer demand including online shopping. Notwithstanding that the Company expects to emerge from the Restructuring Plan as a leaner organization, there is no assurance that the Restructuring Plan will be successful and that all relevant and required regulatory, creditor and court approvals will be obtained. Furthermore, significant resources are expected to be required to legally emerge from the formal restructuring process that will place increased risk on the Company's available liquidity, especially considering the Company does not currently have access to any debt or financing arrangements.

For the year ended January 30, 2021, the Company reported a net loss of $55.9 million. The Company's current liabilities total $112.2 million as at January 30, 2021. As at January 30, 2021, the Company held cash and accounts and other receivables of $36.4 million. The Company does not currently have any third-party financing available with which to meet any future financial obligations.

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

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

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

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These consolidated financial statements as at and for the year ended January 30, 2021 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned U.S. subsidiary, DAVIDsTEA (USA) Inc. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash on the consolidated balance sheet comprises cash at banks and on hand.

Trade receivables

Trade receivables primarily represent amounts due from wholesale customers and are accounted for at amortized cost, less any provision for doubtful accounts which is based on management's best estimate of expected credit losses.

Government assistance

The Company qualifies for the CEWS under the COVID-19 Economic Response Plan of the Government of Canada. Government assistance, including wage subsidies, is recognized when there is a reasonable assurance that the assistance will be received and that the Company will comply with all relevant conditions. Government assistance related to incurred expenses is recorded as a reduction of the related expenses.

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Inventory valuation

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Costs include the cost of purchase and transportation costs that are directly incurred to bring the inventories to their present location, and duty. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs. Cost also includes realized gains and losses on forward contracts designated as cash flow hedges of U.S. inventory purchases, if any.

Property and equipment

Property and equipment are initially recorded at cost and are depreciated over their useful economic life. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly related to bringing the asset to a working condition for its intended use. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. All repair and maintenance costs are recognized in net loss as incurred.

Depreciation of an asset begins once it becomes available for use. Depreciation is charged to income on the following bases:

Furniture and equipment	20% declining balance
Computer hardware	30% declining balance

Leasehold improvements are depreciated on a straight-line basis over the lesser of the useful economic life and the lease term.

Any gain or loss arising on the disposal or derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of net loss when the asset is derecognized.

Intangible assets

Intangible assets consist of computer software, trademarks and patents.

Intangible assets are initially recorded at cost. Intangible assets with finite lives are amortized over their useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of loss as the expense category that is consistent with the function of the intangible assets.

Any gain or loss arising on the disposal or derecognition of the intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset) is included in our consolidated statement of loss when the intangible asset is derecognized.

When computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible. Computer software is amortized on the basis of its estimated useful life using the declining method at the rate of 30%.

Leased assets

On February 3, 2019, the Company adopted IFRS 16, "Leases" using the modified retrospective method.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, which includes the initial amount of lease liabilities adjusted for any initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term. In addition the right-of-use assets are subject to impairment and adjusted for any remeasurement of lease liabilities, to the extent that there is a balance of right-of-use asset at the time the change in lease liability occurs. Amortization expense is recorded in selling, general and administrative expense.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest accretion is recorded as interest expense in finance costs. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US $5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Impairment

i. Impairment of financial assets

The Company applies the expected credit loss model to its trade receivables. It requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. The Company applies the simplified approach for trade receivables and calculates expected credit losses based on lifetime expected credit losses.

ii. Impairment of non-financial assets

The Company assesses all non-financial assets, at each reporting date, for indications that the carrying amount may not be recoverable. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or corporate assets. The discount rate applied to an asset or CGU is the weighted average cost of capital ("WACC"). Management considers factors such as risk-free rate, equity risk premium, size premium, specific business risk premium and cost of debt to derive the WACC.

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The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover the lease term.

Based on the management of operations, the Company has defined each of the commercial premises in which it carries out its activities as a CGU, although where appropriate these premises are aggregated at a district or regional level to form a CGU. For non-financial assets that can be reasonably and consistently allocated to individual stores, the store level is used as the CGU for impairment testing. For all other non-financial assets, the corporate level is used as the group of CGUs.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment may no longer exist or may have decreased and if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Such reversal is recognized in the consolidated statement of loss.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in our consolidated statement of loss, net of any reimbursement. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Liabilities subject to Compromise

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

Liabilities subject to compromise represent the liabilities that will ultimately be subject to the plan of arrangement ("allowed claims") and compromise to the Company's creditors, and include disclaimed leases, trade and other payables, and severance costs, as further described in note 13. Trade and other payables, and severance costs represent the Company's legal obligation. Disclaimed leases are measured at the Company's best estimate of liabilities that will ultimately be subject to the plan of arrangement ("allowed claims"). The measurement of liabilities subject to compromise is measured at the reporting date based on an analysis of the nature and carrying value of the underlying liabilities, proof of claim, as well as the stage of advancement of the claims identification, resolution and barring process.

Liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims or other events, and is therefore subject to significant estimation uncertainty. Changes to the provision in future periods may be material and will be recorded through earnings.

Share capital

i. Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

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Common shares are classified as equity if they are non-redeemable or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity on approval by the Company's Board of Directors.

Stock-based compensation

The Company has a stock option plan for employees and directors from which options to purchase common shares are issued (the "Plan"). Options may not be granted with an exercise price of less than the fair value of the underlying shares at the grant date. The awards have no cash settlement alternatives. The vesting requirements are typically service-based and the options normally have a contractual life of seven years.

The fair value of stock-based compensation awards granted to employees is measured at the grant date using the Black Scholes option pricing model. Measurement inputs include the share price of the underlying shares on the measurement date, the exercise price of the option, the expected volatility (based on weighted average historical volatility of comparable companies adjusted for changes expected based on publicly available information), the weighted average expected life of the option (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

The value of the compensation expense is recognized over the vesting period of the stock options as an expense included in selling and general administration expenses, with a corresponding increase to contributed surplus in equity. The amount recognized as an expense is adjusted to reflect the Company's best estimate of the number of awards that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

Any consideration paid by plan participants on the exercise of stock options and the previously recognized compensation cost of the options exercised included in contributed surplus are credited to share capital.

Under the Company's 2015 Omnibus Equity Incentive Plan (the "2015 Omnibus Plan"), selected employees and directors are granted RSUs where each RSU has a value equal to one common share. The compensation expense is recorded at the fair value of the Company's common shares at the grant date over the vesting period (generally one to three years) with a corresponding credit to contributed surplus for equity-settled RSUs and a corresponding credit to a liability for cash-settled RSUs. RSUs may be settled in shares, cash, or a combination of cash or shares upon vesting at the discretion of the Company. Cash settled RSUs are revalued at each reporting date to reflect their fair value at that date. Fair value is determined using the closing price of the Company's common shares on the NASDAQ Global Market prior to the date of the grant. The Company has not issued any cash settled awards to date.

Revenue recognition

Revenue is recognized when control of goods has been transferred at the amount of consideration to which the Company expects to be entitled. Revenue is recognized on e-commerce sales when merchandise is delivered to the consumer. Revenue from retail sales is recorded upon delivery to the customer. Revenues are recorded net of discounts, rebates, estimated returns, sales taxes and amounts deferred related to the issuance of Frequent Steeper points.

Revenue from the Company's wholesale business is recognized upon receipt of products by the customer. Wholesale revenue is recorded net of estimates of returns, discounts, operational chargebacks, and certain advertising allowances. Estimates for operational chargebacks are based on actual customer notifications of order fulfillment discrepancies and historical trends. The Company reviews and refines these estimates on at least a quarterly basis. The Company's historical estimates of these amounts have not differed materially from actual results.

i. Gift card breakage

Gift cards sold are recorded as deferred revenue and revenue is recognized at the time of redemption or in accordance with the Company's accounting policy for breakage. Breakage income represents the estimated value of gift cards that is not expected to be redeemed by customers and is determined in proportion to the pattern of rights exercised by the customer. Gift card breakage is included in sales in the consolidated statement of loss.

ii. Loyalty program

The Frequent Steeper loyalty and rewards program allows customers to earn points when they purchase products in the Company's retail stores and on the Company's website. The Company introduced a new Loyalty program on January 1, 2019 that enhanced some features and removed expiry of points. Under the old program, points were redeemed for free tea or free beverages, depending on the number of points a customer has obtained over a limited collection period, typically a three-month period. Free tea offers were issued at the end of each collection period and redeemable within 60 days thereafter. Free beverage offers were issued at the end of the calendar collection period and redeemable within 60 days thereafter.

The new program launched on January 1, 2019, allows customers to earn points when they purchase products at the Company's retail stores and on the Company's website. Points are converted into offers to receive loose-leaf teas which must be redeemed within 60 days. Free beverage offers are issued once a customer has purchased 10 beverages which must be redeemed within 60 days.

Consideration is allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices. The fair value of Frequent Steeper points and offers are determined based on the estimated selling price of the loose-leaf tea, net of points and offers we expect will not be redeemed. The fair value of beverage offers is determined based on the estimated selling price of the beverage, net of beverage offers that are not expected to be redeemed. The relative selling price of points and offers issued are recorded as deferred revenue. Offers for loose-leaf tea and beverage offers are recognized as revenue on the earlier of redemption and expiry. On an ongoing basis, the Company monitors historical redemption rates. Frequent Steeper redemptions are included with total sales in our consolidated statement of net loss.

iii. Subscription box

Revenue is recognized at a point in time, which is upon delivery of subscription boxes, as it meets the criteria to satisfy the performance obligation. Deferred revenue is recognized for consideration received in advance of the delivery of subscription boxes.

Finance income

Interest income is recognized as interest accrues using the effective interest method.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in our consolidated statement of loss except to the extent that they relate to items recognized directly in equity or in other comprehensive loss.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company uses the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities for all temporary differences caused when the tax bases of assets and liabilities differ from their carrying amounts reported in the consolidated financial statements. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year.

The diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed conversion of preferred shares and the exercise of stock options and RSUs, if dilutive. For stock options, the number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized stock-based compensation which is considered to be assumed proceeds, are used to purchase common shares at the average market price during the reporting period.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or liability is recognized initially (at settlement date) at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statements of loss.

After initial recognition, financial assets are measured at amortized cost or fair value. Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss ("FVTPL") or recognized in other comprehensive income ("FVOCI").

The Company classifies its financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement.

Classifications that the Company has used for financial assets include:

(a) Amortized Cost – non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes trade receivables and the loan to a Company controlled by one of the Company's executive employees, and these are recorded at amortized cost with gains and losses recognized in net income in the period that the asset is no longer recognized or becomes impaired; and

(b) FVTPL – financial assets which are classified as fair value through profit and loss. This includes cash and derivative financial instruments

Classifications that the Company has used for financial liabilities include:

(a) Amortized cost – non-derivative financial liabilities measured at amortized cost with gains and losses recognized in net loss in the period that the liability is no longer recognized. This includes Trade and other payables

Foreign currency translation

Revenues, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Unrealized and realized translation gains and losses are reflected in our statement of loss.

The assets and liabilities of the Company's U.S. wholly owned subsidiary, whose functional currency is the U.S. dollar, are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Differences arising from the exchange rate changes are included in OCI in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other OCI in the cumulative translation account and reclassified from equity to our consolidated statement of loss on disposal of the net investment.

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4. CHANGES IN ACCOUNTING PRINCIPLES

Recently Issued Accounting Pronouncements

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses as well as information about significant estimates are discussed in the following section.

Key sources of estimation uncertainty

Liabilities subject to compromise

As a result of the termination of leases pursuant to the Restructuring Plan, included in liabilities subject to compromise is a liability related to disclaimed leases of $75.3 million, determined at the reporting date based on an analysis of the nature and carrying value of the underlying liabilities, proof of claim, as well as well as the stage of advancement of the claims identification, resolution and barring process.

Liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims or other events, and is therefore subject to significant estimation uncertainty, as proceedings are in a preliminary stage. Changes to the provision in future periods may be material and will be recorded through earnings.

Recoverability and impairment of non-financial assets

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

Key judgments in applying accounting principles

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).

Critical judgements in applying accounting policies

i. Going concern uncertainty

In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that raise substantial doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least twelve months following the end of the reporting period by considering relevant available information about the future. In addition, management must make assumptions about what actions it will take to right-size the business. Given that it is difficult to adequately predict future cash flows given the inherent uncertainties concerning the formal restructuring process and the impact of the COVID-19 pandemic, management has concluded that there are material uncertainties related to events or conditions that raise substantial doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

ii. Impairment of non-financial assets

Management is required to make significant judgments in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU. The significant judgments applied by management in determining if stores should be aggregated in a given geographic area to form a CGU include the determination of expected customer behavior, the allocation basis of e-commerce sales to CGUs, and whether customers could interchangeably shop in any of the stores in a given area and whether management views the cash inflows of the stores in the group as interdependent.

iii. Income taxes

The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. The Company establishes provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

iv. Determination of the lease term of leases with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal, including store performance, expected future performance and past business practice. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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6. ACCOUNTS AND OTHER RECEIVABLES

	January 30, 2021	February 1, 2020
Credit card and cash clearing receivables	706	849
Trade receivables	1,232	2,072
Loan to a Company controlled by one of the Company executive employees		2,026
Other receivables	4,219	1,115
	6,157	6,062

7. INVENTORIES

	January 30, 2021 $	February 1, 2020 $
Finished goods	**17,478**	18,590
Goods in transit	**3,123**	2,059
Packaging	**2,867**	1,714
	23,468	22,363

During the year ended January 30, 2021, inventories recognized as cost of sales amounted to $34,463 [February 1, 2020 —$56,310, February 2, 2019 - $63,195]. The cost of inventory includes a write-down of $557 [February 1, 2020 – nil, February 2, 2019 - $703] recorded as a result of net realizable value being lower than cost. Inventory write-downs of nil [February 1, 2020 - $406, February 2, 2019 – nil] recognized in the previous years were reversed.

8. PROPERTY AND EQUIPMENT

	Leasehold improvements $	Furniture and equipment $	Computer hardware $	Total $
Cost				
Balance, February 2, 2019	84,142	13,910	5,878	103,930
Acquisitions	746	211	75	1,032
Disposals	—	(131)	—	(131)
Cumulative translation adjustment	285	32	11	328
Balance, February 1, 2020	85,173	14,022	5,964	105,159
Acquisitions	**237**	**150**	**47**	**434**
Disposals	**(78,001)**	**(11,987)**	**(4,251)**	**(94,239)**
Cumulative translation adjustment	**712**	**49**	**12**	**773**
Balance, January 30, 2021	**8,121**	**2,234**	**1,772**	**12,127**

	Leasehold improvements $	Furniture and equipment $	Computer hardware $	Total $
Accumulated depreciation and impairment				
Balance, February 2, 2019	65,874	10,001	4,267	80,142
Depreciation	4,032	854	525	5,411
Impairment	1,587	—	—	1,587
Disposals	—	(31)	—	(31)
Cumulative translation adjustment	278	29	6	313
Balance, February 1, 2020	71,771	10,853	4,798	87,422
Depreciation	**1,582**	**517**	**300**	**2,399**
Impairment	**10,665**	**1,990**	**512**	**13,167**
Disposals	**(78,001)**	**(11,782)**	**(4,084)**	**(93,867)**
Cumulative translation adjustment	**573**	**93**	**31**	**697**
Balance, January 30, 2021	**6,590**	**1,671**	**1,557**	**9,818**

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	Leasehold improvements $	Furniture and equipment $	Computer hardware $	Total $
Net Carrying Value				
Balance, February 1, 2020	13,402	3,169	1,166	17,737
Balance, January 30, 2021	**1,531**	**563**	**215**	**2,309**

For the year ended January 30, 2021, an assessment of impairment indicators was performed which caused the Company to review the recoverable amount for certain CGUs with an indication of impairment. CGUs reviewed included stores that were permanently closed as part of the Restructuring Plan and the remaining stores that are expected to perform below the Company's previous projection.

As a result, an impairment loss of $13,167 related to store leasehold improvements, furniture and equipment and computer hardware was recorded [February 1, 2020 - $1,587, February 2, 2019 — $9,926 related to store leasehold improvements, furniture and equipment and computer hardware]. The impairment was recorded in the Canada and U.S. segments for $13,167 and nil, respectively [February 1, 2020 – $1,535 and $52, February 2, 2019 - $7,686 and $2,240, respectively]. Impairment losses related to closed stores of $12,966 is reported under Restructuring plan activities, net (note 19), while impairment losses of $201 related to stores expected to remain open are reported in under selling, general and administration expenses (Note 18).

The impairment loss taken related to the stores that remain open was determined by comparing the carrying amount of the CGU's net assets with their respective recoverable amounts based on value in use for 7 of the 18 stores. This value in use of $791 [February 1, 2020 – $6,466] was determined based on management's best estimate of expected future cash flows from use over the remaining lease terms. This determination considered historical experience as well as current economic conditions, including the expected reopening date and the timeframe to foot traffic recovery in those location, and was then discounted using a pre-tax discount rate of 13.0% for the first quarter of 2020 [February 1, 2020 – 12.1%]

For the year ended January 30, 2021, the depreciation expense was $2,399 [February 1, 2020 - $5,411, February 2, 2019 —$6,904]; with $1,838 recorded in the Canada segment [February 1, 2020 - $4,659, February 2, 2019 — $5,825], $53 recorded in the U.S. segment [February 1, 2020 - $219, February 2, 2019 — $520], and $508 recorded in corporate selling, general and administration expenses [February 1, 2020 - $533, February 2, 2019 — $559]. Depreciation expense is reported in the consolidated statement of loss and comprehensive loss under selling, general and administration expenses (Note 18).

9. INTANGIBLE ASSETS

	Computer software $	Other $	Total $
Cost			
Balance, February 2, 2019	11,915	101	12,016
Acquisitions	2,594	—	2,594
Cumulative translation adjustment	2	—	2
Balance, February 1, 2020	14,511	101	14,612
Acquisitions	**479**	**—**	**479**
Disposals	**(2,418)**	**—**	**(2,418)**
Cumulative translation adjustment	**(54)**	**—**	**(54)**
Balance, January 30, 2021	**12,518**	**101**	**12,619**

	Computer software $	Other $	Total $
Accumulated amortization			
Balance, February 2, 2019	6,336	2	6,338
Amortization	1,934	—	1,934
Cumulative translation adjustment	3	(2)	1
Balance, February 1, 2020	8,273	—	8,273
Amortization	**2,053**	**—**	**2,053**
Disposals	**(1,628)**	**—**	**(1,628)**
Cumulative translation adjustment	**(8)**	**—**	**(8)**
Balance, January 30, 2021	**8,690**	**—**	**8,690**

	Computer software $	Other $	Total $
Net Carrying Value			
Balance, February 1, 2020	6,238	101	6,339
Balance, January 30, 2021	**3,828**	**101**	**3,929**

Amortization expense is reported in the consolidated statement of loss and comprehensive loss under selling, general and administration expenses (Note 18).

10. LEASE LIABILITIES

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-Use Assets $	Lease Liability $
Balance, February 1, 2020	35,082	88,664
Additions	1,987	1,987
Amortization expense	(3,041)	—

Impairment of right-of-use assets	(26,793)	—
Gain on modification of lease liability	(6,684)	(81,805)
Loss on disposal	(397)	—
Interest expense	—	3,230
Payments	—	(6,007)
Transfer to liabilities subject to compromise		(6,207)
CTA	503	889
Balance, January 30, 2021	**657**	**751**
Presented as:		
Current	—	396
Non-Current	—	355

The Company also recorded an impairment loss of $26,793 related to the Company's right-of-use assets [February 1, 2020 - $16,193, February 2, 2019 - nil]. The impairment was recorded in the Canada and U.S. segments for $20,804 and $5,989, respectively.

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These impairments are further broken down as follows:

	Stores permanently closed $	Stores that remain open $	Total $
Right-of-use assets	**24,433**	**2,360**	**26,793**

Impairment losses related to stores permanently closed and stores that remain open have been recorded in Restructuring plan activities, net and Selling, general and administration expenses, respectively. Refer to note 8 for further details.

Amortization expense is reported in the consolidated statement of loss and comprehensive loss under Selling, general and administration expenses.

The following table presents a maturity analysis of future contractual undiscounted cash flows from lease liabilities:

	February 1, 2020 $
Within one year	428
After one year but no more than five years	375
More than five years	—
	803

The Company has lease contracts that contain variable lease payments primarily based on a percentage of retail sales. The Company recognized variable lease payments of $985 for the year ended January 30, 2021. In addition, expenses related to leases of low-value assets were $18. These expenses are recorded in Selling, general and administrative expenses.

11. TRADE AND OTHER PAYABLES

	January 30, 2021 $	February 1, 2020 $
Trade payable and accrued liabilities	1,891	16,582
Income taxes payable	1,244	1,244
Wages, salaries and employee benefits payable	1,017	2,968
	4,152	20,794

Included in prepaid expenses and deposits are advances to suppliers of $6.8 million.

12. DEFERRED REVENUE

	January 30, 2021 $	February 1, 2020 $
Gift cards liability	4,642	4,899
Loyalty program	1,548	1,953
Subscription Box Liability	890	0
	7,080	6,852

During the year, the Company recorded gift card breakage income of $74 [February 1, 2020 - $1,294, February 2, 2019 - $242]. Gift card breakage is included in sales in the consolidated statement of loss.

13. LIABILITIES SUBJECT TO COMPROMISE

As a result of the Initial Order obtained on July 8, 2020 and subsequent amendments (Note 1), the payment of liabilities owing as of July 8, 2020 is stayed, and the outstanding liabilities, as well as any additional outstanding claims by creditors are subject to compromise pursuant to a plan of arrangement that is expected to be presented to creditors.

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

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

As of January 30, 2021, liabilities subject to compromise are broken down as follows:

	Disclaimed and modified leases $	Trade and other payables $	Severance Costs $	Liabilities subject to compromise $
Balance, January 30, 2021	**75,310**	**20,699**	**4,541**	**100,550**

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

As a result of the termination of leases pursuant to the Restructuring Plan in the year ended January 30, 2021, the Company has recorded an estimate for allowed claims in the amount of $75.3 million, in Restructuring plan activities, net in the consolidated statement of income (loss) (Note 19). This provision is subject to estimation uncertainty. Trade and other payables representing the payment of liabilities owing as of July 8, 2020, amounted to $20.7 million and severance costs amounting to $4.5 million.

14. COMMITMENTS AND CONTINGENCIES

As at January 30, 2021, the Company has financial commitments in connection with the purchase of goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs. Purchase obligations, net of $6.8 million of advances, which is included in Prepaid expenses and deposits, amounting to $14.1 million (2019 - $11.5 million) is expected to be discharge within 12 months.

15. SHARE CAPITAL

Authorized

An unlimited number of common shares.

Issued and Outstanding

	January 30, 2021 $	February 1, 2020 $
Share Capital - 26,234,582 Common shares (February 1, 2020 - 26,086,162)	**113,167**	112,843

	Common shares #
Number of shares in issuance	
Balance, February 2, 2019	26,011,817
Issuance of common shares upon exercise of options	18,500
Issuance of common shares upon vesting of restricted stock units	55,845
Balance, February 1, 2020	26,086,162
Issuance of common shares upon exercise of options	**4,000**
Issuance of common shares upon vesting of restricted stock units	**144,420**
Balance, January 30, 2021	**26,234,582**

During the year ended January 30, 2021, 4,000 stock options were exercised for common shares, for cash proceeds of $4 [February 1, 2020 – 18,500 stock options for cash proceeds of $14, February 2, 2019 – 51,720 stock options for cash proceeds of $82 and 36,415 common shares for a non-cash settlement of $121]. The carrying value of common shares during the year ended January 30, 2021 includes $1 [February 1, 2020 - $7] which corresponds to a reduction in the contributed surplus associated to options exercised during the period.

In addition, during the year ended January 30, 2021, 144,420 common shares [February 1, 2020 – 55,845, February 2, 2019 —74,728] were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of $319, net of tax [February 1, 2020 - $303, February 2, 2019 – $663].

Stock-Based Compensation

The 2015 Omnibus Plan provides for awards of stock options, stock appreciation rights (“SARs”), restricted stock, unrestricted stock, stock units (including restricted stock units, “RSUs”), performance awards, deferred share units, elective deferred share units and other awards convertible into or otherwise based on the Company’s common shares. Eligibility for stock options intended to be incentive stock options (“ISOs”) is limited to the Company’s employees. Dividend equivalents may also be provided in connection with an award under the 2015 Omnibus Plan. The maximum term of stock options and SARs is seven years. The options vest evenly over a period of 36 or 48 months, with some options vesting monthly and some options vesting annually. There are no cash settlement alternatives.

The maximum number of the Company’s common shares that are available for issuance under the 2015 Omnibus Plan is 2,940,000 shares. Common shares issued under the 2015 Omnibus Plan may be shares held in treasury or authorized but unissued shares of the Company not reserved for any other purpose. As at January 30, 2021, 1,200,323 common shares remain available for issuance under the 2015 Omnibus Plan.

No options were granted for the year ended January 30, 2021 [February 1, 2020 – nil].

A summary of the status of the Company’s stock option plan and changes during the year is presented below.

	For the year ended			
	January 30, 2021		February 1, 2020	
	Options outstanding #	Weighted average exercise price $	Options outstanding #	Weighted average exercise price $
Outstanding, beginning of year	**76,350**	**8.96**	137,540	7.17
Issued	—	—	—	—
Exercised	**(4,000)**	**0.77**	(18,500)	0.77
Forfeitures	**(54,860)**	**10.40**	(42,690)	6.72
Outstanding, end of year	**17,490**	**6.32**	76,350	8.96
Exercisable, end of year	**17,490**	**6.32**	75,475	8.90

The weighted average share price at the date of exercise for options exercised during the year ended January 30, 2021 was $0.87 [February 1, 2020 — $2.28].

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The following tables summarize information about the stock options outstanding at January 30, 2021 and February 1, 2020:

Range of exercise prices	Number outstanding at January 30, 2021 #	Weighted average contractual remaining life (years)	Weighted average exercise price $	Number of options exercisable at February 1, 2020 #	Weighted average exercise price $
$3.33 - $4.31	14,000	0.8	4.30	14,000	4.30
$14.39 - $17.99	3,490	2.2	14.39	3,490	14.39
As at January 30, 2021	**17,490**	**1.1**	**6.32**	**17,490**	**6.32**

Range of exercise prices	Number outstanding at February 1, 2020 #	Weighted average contractual remaining life (years)	Weighted average exercise price $	Number of options exercisable at February 1, 2020 #	Weighted average exercise price $
$ 0.77	4,000	0.4	0.77	4,000	0.73
$3.33 - $4.31	14,000	1.8	4.30	14,000	4.30
$8.76 - $10.28	53,225	4.1	10.28	53,225	10.28
$14.39 - $17.99	5,125	3.2	13.39	4,250	14.39
As at February 1, 2020	**76,350**	**3.4**	**8.96**	**75,475**	**8.90**

A summary of the status of the Company’s RSU plan and changes during the years ended January 30, 2021 and February 1, 2020 is presented below.

	For the year ended			
	January 30, 2021		February 1, 2020	
	RSUs	Weighted average fair value	RSUs	Weighted average fair value

	outstanding \#	per unit (1) $	outstanding \#	per unit (1) $
Outstanding, beginning of year	**749,522**	**5.26**	270,976	5.26
Granted	**1,177,222**	**1.44**	804,710	1.93
Forfeitures	**(351,205)**	**(1.71)**	(188,685)	3.17
Vested	**(121,920)**	**(1.54)**	(78,465)	5.41
Vested, withheld for tax	**(147,518)**	**(2.16)**	(59,014)	5.51
Outstanding, end of period	**1,306,101**	**1.70**	749,522	2.17

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

During the year ended January 30, 2021, the Company recognized a stock-based compensation expense of $820 [February 1, 2020 - $813, February 2, 2019 — $211].

16. FINANCE COSTS

	For the Year Ended		
	January 30, 2021 $	**February 1, 2020 $**	**February 2, 2019 $**
Accretion on provisions	—	—	251
Interest and penalty on provision for uncertain tax position	—	(250)	1,300
Interest on lease liabilities	3,229	6,962	—
Other finance costs	44	39	63
	3,273	6,751	1,614

17. INCOME TAXES

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

	For the year ended					
	January 30, 2021		**February 1, 2020**		**February 2, 2019**	
	%	**$**	**%**	**$**	**%**	**$**
Income tax provision (recovery) — statutory rate	26.4	(14,737)	26.8	(8,747)	26.9	(7,700)
Increase (decrease) in provision for income tax (recovery) resulting from:						
Non-deductible items	(0.1)	39	(0.7)	232	(1.3)	378
Effect of substantively enacted income tax rate changes	(0.7)	400	(1.2)	394	—	—
Unrecognized deferred income tax assets	(25.4)	14,209	(25.2)	8,232	(15.0)	4,306
Write-down of deferred income tax assets	—	—	—	—	(18.2)	5,194
Provision for uncertain tax assets	—	—	4.6	(1,500)	(9.4)	2,700
Other	(0.2)	89	0.3	(111)	—	4
Income tax provision (recovery) — effective tax rate	(0)	—	4.6	(1,500)	(17.0)	4,882

A breakdown of the income tax provision (recovery) on the consolidated statement of loss is as follows:

	For the Year Ended		
	January 30, 2021 $	**February 1, 2020 $**	**February 2, 2019 $**
Income tax provision (recovery)			
Current	-	(1,500)	(187)
Deferred	-	-	5,069
	-	(1,500)	4,882

In fiscal 2018, in connection with a Canada Revenue Agency transfer pricing audit, the Company recorded a provision of $4.0 million comprised of $2.7 million and $1.3 million for taxes and interest, respectively. In fiscal 2019 the Company revised its estimate for this uncertain tax position to $1.2 million and $1.0 million for taxes and interest, respectively. In 2020, the Company further revised its estimate for this uncertain tax position to $359 for interest. This is classified in trade and other payables within liabilities subject to compromise (note 13).

The tax effects of temporary differences and net operating losses that give rise to deferred income tax assets and lease liabilities are as follows:

	For the Year Ended		
	January 30, 2021	**February 1, 2020**	**February 2, 2019**
Deferred income tax assets			
Operating losses carried forward	**14,295**	7,893	1,417
Tax values of property and equipment in excess of carrying value including impairment	**3,099**	2,330	3,505
Deferred rent	-	-	1,762

Stock options	**3,587**	3,763	3,843
Financing fees and IPO-related costs	**3**	5	588
Lease inducements	-	-	634
Lease liabilities	**197**	23,942	-
Liabilities subject to compromise	**21,454**	-	5,357
Other	**791**	953	665
Total deferred income tax assets	**43,426**	38,886	17,771
Deferred income tax liabilities			
Right-of-use assets	**(191)**	(9,444)	-
Unrealized foreign exchange gain related to intercompany advances	**(8)**	(109)	(212)
Total deferred income tax liabilities	**(199)**	(9,553)	(212)
Total deferred income tax assets, net	**43,227**	29,333	17,559
Unrecognized deferred income tax asset	**(43,227)**	(29,333)	(17,559)
Net deferred income tax assets	-	-	-

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As at January 30, 2021, the Company's Canadian operations have accumulated losses amounting to $32.5 million [February 1, 2020 — $20.2 million; February 2, 2019 — $12.0 million], which begin to expire in 2039. As at January 30, 2021, the Company's U.S. subsidiary has accumulated losses amounting to US$26.6 million [February 1, 2020 — US$17.4 million; February 2, 2019 — US$13.9 million], of which US$13.9 million expire during the years ending in 2033 to 2037. The remaining accumulated losses amounting to US$12.7 million have an indefinite carry forward period.

Based upon the projections for future taxable income management believes it is no longer probable the Company will realize the benefits of these operating tax losses carried forward and other deductible temporary differences. Therefore, a full valuation allowance of $43,227 was recorded against the net deferred income tax asset.

The changes in the net deferred income tax asset were as follows for the fiscal year:

	For the Year Ended		
	January 30, 2021	**February 1, 2020**	**February 2, 2019**
Balance net, beginning of year	-	-	5,194
Deferred rent	-	(1,762)	101
Canadian and U.S. operating losses carried forward	**6,402**	6,476	158
Property and equipment, including store impairment	**769**	(1,175)	1,952
Stock options	**(176)**	(80)	442
Financing fees and IPO-related costs	**(2)**	(583)	(609)
Foreign exchange gain on derivative financial instrument	-	-	(62)
Unrealized foreign exchange gain on intercompany advances	**101**	103	(99)
Right-of-use asset	**9,253**	(9,444)	-
Lease liabilities	**(23,745)**	23,942	-
Lease inducement	-	(634)	120
Unrecognized deferred income tax asset	**(13,894)**	(11,774)	(7,770)
Provisions for onerous contracts	-	(5,357)	544
Liabilities subject to compromise	**21,454**	-	-
Other	**(162)**	288	29
Deferred income tax assets net, end of year	-	-	-

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18. SELLING, GENERAL AND ADMINISTRATION EXPENSES

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

	For the year ended		
	January 30, 2021 $	**February 1, 2020 $**	**February 2, 2019 $**
Wages, salaries and employee benefits	**20,222**	65,288	68,324
Depreciation of property and equipment	**2,399**	5,411	6,904
Amortization of intangible assets	**2,053**	1,934	1,298
Amortization right-of-use asset	**3,041**	12,051	—
Impairment of property and equipment and right-of-use assets	**2,561**	17,780	9,960
Loss on disposal of property and equipment	—	100	151
Marketing expenses	**4,693**	7,282	6,248
IT expenses	**3,986**	4,022	3,735
Credit card fees	**2,770**	3,030	2,915

Professional fees	**1,713**	2,002	1,743
Stores supplies	**2,023**	5,768	5,101
Stock-based compensation	**820**	813	211
Recovery of provision for onerous contracts	**—**	—	552
Executive separation cost related to salary	**—**	—	1,280
Strategic review and proxy contest	**—**	—	3,593
ERP project termination	**—**	—	2,496
Government emergency wage subsidy	**(4,494)**	—	—
Other selling, general and administration	**4,677**	9,824	11,211
	46,464	135,306	125,722

19. RESTRUCTURING PLAN ACTIVITIES, NET

During the year ended January 30, 2021, the Company, in connection with the termination or modification of leases pursuant to the Restructuring Plan, reduced its lease liabilities by $81.8M million, resulting in a gain on the modification of lease liabilities of $75.1M and a reduction in right-of-use assets of $6.7M.

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

		For the year ended January 30, 2021 $
Gain on modification of lease liabilities		(75,121)
Disclaimed leases	[Note 13]	76,281
Impairment of property and equipment and right-of-use assets	[Note 10]	37,399
Trade and other payables	[Note 13]	4,991
Severance costs	[Note 13]	4,840
Store closure related costs		4,158
Professional fees		2,840
Loss on disposal of property and equipment, right-of-use assets and intangible assets		1,559
Interest and penalties related to unpaid occupancy charges		1,282
Restructuring plan activities, net		56,327

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20. EARNINGS PER SHARE

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

	For the year ended		
	January 30, 2021 $	**February 1, 2020 $**	**February 2, 2019 $**
Net loss for basic EPS	**(55,932)**	(31,197)	(33,539)
Weighted average number of shares outstanding:			
Basic	**26,168,848**	26,056,332	25,967,836
Fully diluted	**26,168,848**	26,056,332	25,967,836
Net loss per share:			
Basic	**(2.14)**	(1.20)	(1.29)
Fully diluted	**(2.14)**	(1.20)	(1.29)

For the years ended January 30, 2021, February 1, 2020, and February 2, 2019, as a result of the net loss during the year, the stock options and RSUs disclosed in Note 15 are anti-dilutive.

21. RELATED PARTY DISCLOSURES

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

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

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

Other 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 30, 2021, the Company purchased merchandise for resale from a company controlled by one of its executive employees amounting to $139 [February 1, 2020 — $124; February 2, 2019 — $241]. As of January 30, 2021, an amount of nil was outstanding and presented in Trade and other payables.

The Company also provided infrastructure and administrative services of $90 [February 1, 2020 — $312; February 2, 2019 — nil] to a company controlled by one of its executive employees. As of January 30, 2021, an amount of $43 was outstanding and presented in Accounts and other receivables.

During the year-ended January 30, 2021, the Company purchased perpetual license rights to a reporting data model and associated intellectual property for nil [February 1, 2020 — $200] and spent $53 [February 1, 2020 — $237; February 2, 2019 — nil] for consulting services from a related party of the principal shareholder. As of January 30, 2021, an amount of nil [February 1, 2020 — $28] was outstanding and presented in Trade and other payables.

During the year ended February 2, 2019, the Company reimbursed Rainy Day Investments Ltd. ("Rainy Day Investments"), a controlling shareholder $957 for third-party costs incurred by it in connection with the proxy contest which culminated at the Company's annual meeting held on June 14, 2018. This reimbursement was approved by the independent members of the Board of Directors of the Company. This amount is included in selling, general and administration expenses.

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Transactions with Key Management Personnel

Key management of the Company includes members of the Board as well as members of the Executive Committee. The compensation earned by key management in aggregate was as follows:

	For the Year Ended		
	January 30, 2021	February 1, 2020	February 2, 2019
Wages, salaries ,bonus and director fees	**1,895**	2,784	2,706
Termination benefits	—	110	1,025
Stock-based compensation	**670**	669	101
Total compensation earned by key management personnel	**2,565**	**3,563**	**3,832**

22. SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. As a result of the Restructuring Plan which led to the closure of all but 18 retail stores, the CODM has changed the way in which they evaluate the business. The Company has reviewed its operations and determined that each its operating segments are geographic components. The Company has concluded that it has two operating segments, Canada and the U.S., that derive their revenues from the online, retail and wholesale sale of tea, tea accessories and food and beverages. The Company's Chief Executive and Brand Officer and President, Chief Financial and Operations Officer (the chief operating decision makers or "CODM") make decisions about resources to be allocated to the segments and assesses performance, and for which discrete financial information is available. In the prior year the operating segments were the retail premises, and the reportable segments were Canada and US. As a result, there is no impact on prior period information as reportable segments were previously Canada and US.

The Company derives revenue from the following products:

	For the year ended		
	January 30, 2021 $	February 1, 2020 $	February 2, 2019 $
Tea	**103,620**	148,846	152,761
Tea accessories	**16,255**	34,003	44,436
Food and beverages	**1,811**	13,613	15,556
	121,686	196,462	212,753

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

	January 30, 2021 $	February 1, 2020 $
Canada	**6,895**	52,116
US	-	7,042
Total	**6,895**	59,158

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

	For the year ended January 30, 2021		
	Canada	US	Consolidated
	$	$	$
Sales	92,537	29,149	121,686
Cost of sales	55,902	16,051	71,953
Gross profit	36,635	13,098	49,733
Selling, general and administration expenses (allocated)	18,923	4,467	23,390
Impairment of property and equipment and right-of-use assets	2,561	—	2,561
Results from operating activities before corporate expenses	15,151	8,631	23,782
Selling, general and administration expenses (non-allocated)			20,513
Restructuring plan activities, net			56,327
Results from operating activities			(53,058)
Finance costs			3,273
Finance income			(399)
Net loss before income taxes			(55,932)

	For the year ended February 1, 2020		
	Canada	US	Consolidated
	$	$	$
Sales	152,892	43,570	196,462
Cost of sales	68,958	18,928	87,886
Gross profit	83,934	24,642	108,576
Selling, general and administration expenses (allocated)	65,536	19,520	85,056
Impairment of property and equipment and right-of-use assets	12,087	5,693	17,780
Results from operating activities before corporate expenses	6,311	(571)	5,740
Selling, general and administration expenses (non-allocated)			32,470
Results from operating activities			(26,730)
Finance costs			6,751
Finance income			(784)
Net loss before income taxes			(32,697)

	For the year ended February 2, 2019		
	Canada	US	Consolidated
	$	$	$
Sales	169,430	43,323	212,753
Cost of sales	89,604	25,170	114,774
Gross profit	79,826	18,153	97,979
Selling, general and administration expenses (allocated)	57,901	18,175	76,076
Impairment of property and equipment and right-of-use assets	7,720	2,240	9,960
Impact of onerous contracts	2,034	(1,482)	552
Results from operating activities before corporate expenses	12,171	(780)	11,391
Selling, general and administration expenses (non-allocated)			39,134
Results from operating activities			(27,743)
Finance costs			1,614
Finance income			(700)
Net loss before income taxes			(28,657)

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23. FINANCIAL RISK MANAGEMENT

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

Currency Risk — Foreign Exchange Risk

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

Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net loss in the amount of $287.

The Company’s foreign exchange exposure is as follows:

	January 30, 2021	February 1, 2020
	US$	US$

Cash	**630**	1,928
Accounts and other receivables	**465**	455
Prepaid expenses and deposits	**5,394**	323
Trade and other payables	**750**	6,090

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

Market Risk — Interest Rate Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. The Company is exposed to this risk mainly in respect of its trade and other payables, lease and purchase obligations.

As at January 30, 2021, the Company had $30.2 million in cash.

The Company expects to finance its working capital needs and investments in infrastructure through cash flows from operations and cash on hand. The Company expects that its trade and other payables, amounting to $4.2 million (2020 - $20.4 million), will substantially be discharged within 90 days. Purchase obligations, net of $6.8 million of advances, amounting to $14.1 million (2019 - $11.5 million) is expected to be discharge within 12 months. Refer to note 2 for details with respect to the going concern uncertainty.

Credit Risk

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

Fair Values

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the "Financial instruments" section of Note 3 describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

24. MANAGEMENT OF CAPITAL

The Company's capital is composed of cash and shareholders' (deficiency) equity as follows:

	January 30, 2021 $	**February 1, 2020 $**
Cash	30,197	46,338
Shareholder's (deficiency) equity [Excluding Accumulated other comprehensive income]	(33,154)	22,142
Total capital under management	(2,957)	68,480

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its organic growth, to establish a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Company's primary uses of capital are to finance non-cash working capital and transformative investments in infrastructure and information technology. Furthermore, in light of implementing the Restructuring Plan, the Company expects to use cash on hand to pay for professional fees and for the settlement of obligations upon acceptance, if any, of a plan of arrangement that will be presented to creditors.

The Company traditionally funded its requirements from its cash on hand and internally-generated cash flows. The Company does not have any long-term financing debt (other than lease liabilities). As at January 30, 2021, the Company recognized $100.6 million of liabilities subject to compromise as current liabilities as part of the CCAA claims process described in note 13. The timing and quantum of claims that will be allowed by the Court and ultimately paid to the Company's creditors is currently not possible to determine.

The Board does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements.

25. GUARANTEES

Some agreements to which the Company is party include indemnification provisions that may require the Company to make payments to a third party for breach of fundamental representation and warranty terms in the agreements, with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material obligations. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. As at January 30, 2021, management does not believe that these indemnification provisions would require any material cash payment by the Company, and insurance coverage, estimated by management to be reasonable and sufficient, exists in order to minimize the previously mentioned risks.

The Company indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive and Brand Officer and our President, Chief Financial and Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of January 30, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the assessment of our disclosure controls and procedures, our management concluded that our disclosure controls and procedures were effective as of January 30, 2021.

Management’s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Exchange Act as a process, designed by, or under the supervision of the Company’s principal executive and principal financial officers and effected by the Company’s board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions and disposition of assets; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures are made only in accordance with management and board authorizations; and providing reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management, with the participation of our Chief Executive and Brand Officer and our President, Chief Financial and Operating Officer, assessed our internal control over financial reporting as of January 30, 2021, the end of our fiscal year. Management based its assessment on the 2013 framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on this assessment, management has concluded that our internal control over financial reporting was effective as of January 30, 2021.

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Remediation of Material Weaknesses

During the course of the Company’s financial statement close process for the quarter ended November 2, 2019, accounting errors were identified in the assessment of impairment indicators upon completing the store impairment analysis under IAS 36, Impairment of Assets (“IAS 36”), subsequent to the adoption of IFRS 16, Leases (“IFRS 16”). In fourth quarter of Fiscal 2019, our internal controls related to the Company’s process for evaluating and testing non-financial assets for impairment in connection with the review over the projected financial information used to support management’s impairment of non-financial assets, were determined to not be sufficiently precise to ensure that the estimates are reasonable and supportable considering the existence of both corroborative and contrary evidence and the related application to the accounting literature.

Remediation efforts which began during the first quarter of Fiscal 2020 included a thorough review of the design and effectiveness of the internal control framework in connection with the evaluation and testing of non-financial asset impairment. These efforts included a more thorough documentation of the rationale of significant assumptions including the independent review of our analysis. We have also enhanced our financial close process to help establish a more thoroughly documented rationale for significant assumptions in connection with non-routine transactions. These material weaknesses were remediated as at January 30, 2021.

Changes in Internal Control over Financial Reporting

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

With the exception of remediation efforts to successfully address the previously reported material weaknesses, there were no significant changes in our internal control over financial reporting during our fiscal year ended January 30, 2021 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following is a list of the names and ages of our directors and officers as of April 15, 2021, and a brief summary of the business experience of each of them. Unless otherwise stated, the business address for our directors and officers is c/o DAVIDsTEA Inc., 5430 Ferrier Street, Mount-Royal, Québec, Canada H4P 1M2.

Name	Age	Position
Herschel Segal	90	Chairman of the Board, Strategic Advisor and Director
Sarah Segal	36	Chief Executive Officer and Chief Brand Officer
Frank Zitella, CPA, CMA, CA	56	President, Chief Financial and Operating Officer and Corporate Secretary
Pat De Marco, CPA, CA	60	Lead Director
Susan L. Burkman, MBA	67	Director
Emilia Di Raddo, CPA, CA	63	Director
Peter Robinson, MA, PHD	68	Director

Herschel Segal, Chairman of the Board and Strategic Advisor. Mr. Segal, 90, was appointed Chairman of the Board of Directors and Interim Chief Executive Officer of the Company on June 14, 2018. Mr. Segal resigned as Interim Chief Executive Officer effective December 16, 2020, at which time he was named Strategic Advisor. Since January 1969, Herschel Segal has been President and Chief Executive Officer of Rainy Day Investments Ltd., an investment company. In 1959, Mr. Segal founded Le Chateau Inc., a clothing retailer listed on the TSX Venture Exchange, and served as its Chief Executive Officer until September 2006. Mr. Segal served as Executive Chairman of Le Chateau Inc. until February 2007 and as a director until his resignation effective December 16, 2020. Mr. Segal holds a Bachelor of Arts degree from McGill University, Montreal, Québec. Mr. Segal is a founder of DAVIDsTEA and a resident of Québec, Canada.

Sarah Segal, Chief Executive Officer and Chief Brand Officer. Ms. Segal, 36, served as the President and Head of the Product Development and Tea Department of DAVIDsTEA from December 2010 to September 2012. Ms. Segal also served as the CEO of the retail company Oink Oink Candy Inc., doing business as “Squish”, based in Montreal, Québec. Ms. Segal was appointed VP, Product Development & Innovation of DAVIDsTEA in 2017, Chief Brand Officer on August 21, 2018, and Chief Executive Officer effective December 16, 2020. Ms. Segal received a Bachelor of Arts degree in Environmental Health from McGill University, Montreal, Québec, and an M.Sc. degree in Water Science, Policy and Management from Oxford University, Oxford, England. Ms. Segal is a resident of Québec, Canada.

Frank Zitella, CPA, CMA, CA, President, Chief Financial Officer, Chief Operating Officer and Secretary. Mr. Zitella, 56, joined the Company on December 10, 2018 as Chief Financial Officer and Corporate Secretary and on April 26, 2019 assumed responsibilities as the Company’s Chief Operating Officer. Mr. Zitella was appointed President effective December 16, 2020. Mr. Zitella has close to 30 years of finance, strategic planning and corporate tax planning experience and served for over eleven years as the Vice President and Chief Financial Officer of DST Health Solutions, LLC, a subsidiary of SS&C Technologies Holdings, Inc. (Nasdaq: SSNC), and for over eight years as the Chief Financial Officer of International Financial Data Services, a joint venture between State Street Bank and SS&C Technologies Holdings, Inc. Mr. Zitella received his Bachelor of Commerce degree from Concordia University, Montreal, Québec and his Graduate Diploma in Public Accountancy from McGill University, Montreal, Québec. Mr. Zitella is a resident of Québec, Canada.

Pat De Marco, CPA, CA, Lead Director (June 14, 2018 to present). Mr. De Marco, 60, has served as President and Chief Operating Officer of Viau Food Products Inc. of Laval, Québec, a large Canadian processor of beef and pork products, since 2008. Prior thereto, Mr. De Marco held senior executive positions at Moores Retail Group Inc., Canada’s leading menswear retailer, from 1995 as Chief Financial Officer and from 2002 as President. Prior to that, Mr. De Marco was a partner at Ernst & Young LLP, where for 13 years he audited and consulted for companies in the manufacturing, real estate and consumer goods sectors. Mr. De Marco is a CPA, and holds a Bachelor of Commerce degree from Concordia University, Montreal, Québec. Mr. De Marco is a resident of Québec, Canada.

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Susan L. Burkman, Director (August 23, 2018 to present). Ms. Burkman, 67, is an experienced financial consulting executive. Throughout her 35 years in the investment banking industry, she has successfully led equity, M&A, and valuation and fairness opinion transactions in excess of $6 billion for Canadian companies across numerous industries. Since 2007, she has been majority shareholder and President of Burkman Capital Corporation, an investment banking boutique located in Bromont, Québec. From 1997 to 2007, Ms. Burkman was a partner at Griffiths McBurney and Partners and a Director at GMP Securities where she led the Investment Banking Group in Montreal. Prior thereto, Ms. Burkman was President of Mathurin-Burkman Inc., an investment banking boutique, a Vice-President and member of the Board of Directors of McNeil Mantha Inc., then a publicly-traded Canadian securities brokerage firm, and held positions with Wood Gundy Securities in Toronto and with the Corporate Banking division of Bank of Montreal. Ms. Burkman started her professional career as an auditor with KPMG at its Pittsburgh, Pennsylvania and Toronto, Ontario offices. Since 2012, Ms. Burkman has been a member of the Board of Directors of Olameter Inc., a provider of outsourced utility solutions in North America based in Montreal. Ms. Burkman holds both a Bachelor of Arts degree and Masters of Business Administration degree from the University of Pittsburgh and became a Certified Public Accountant in Pennsylvania. Ms. Burkman is a resident of Québec, Canada.

Emilia Di Raddo, CPA, CA, Director (**from August 21, 2012 to January 31, 2013; from March 2014 to May 10, 2018; since June 14, 2018**). Ms. Di Raddo, 63, has been a director of the Company since 2012, except from February 2013 to March 2014 and from May 10, 2018 to June 14, 2018. She has been the President of Le Chateau Inc., a company listed on the TSX Venture Exchange, since 2000, has served on its Board of Directors since 2001 and was Chief Financial Officer from 1996 to 2000. Prior thereto, Ms. Di Raddo was a partner at Ernst & Young LLP where she practiced for more than 15 years for companies operating in the retail and consumer products industry. Ms. Di Raddo received a Bachelor of Commerce degree and a Diploma in Accountancy from Concordia University, Montreal, Québec, and is also a chartered accountant and a CPA. Ms. Di Raddo is a resident of Québec, Canada.

Peter Robinson, Director (June 14, 2018 to present). Mr. Robinson, 68, possesses diverse leadership experience spanning more than four decades in business, government and the non-profit sectors. He was Chief Executive Officer of the David Suzuki Foundation from 2008 to 2017 and, from 2000 to 2008, was Chief Executive Officer of Mountain Equipment Co-op, a Canadian consumers' cooperative that sells outdoor recreation gear and clothing exclusively to its members. From 1983 to 2000, Mr. Robinson held a number of positions with BC Housing, a government agency, including Chief Executive Officer from 1999 to 2000. Mr. Robinson holds a Bachelor of Arts degree in geography from Simon Fraser University, Burnaby, British Columbia, and a Master of Arts degree in Conflict Analysis and Management and a Doctor of Social Sciences degree, both from Royal Roads University, Victoria, British Columbia. He has been extensively involved in community and humanitarian work, including serving as a director from 2012 to 2017 of Imagine Canada, a national charitable organization, governor of the Canadian Red Cross Society from 2010 to 2012, and Chair of the Board of Governors and Chancellor of Royal Roads University from 2007 to 2010. Mr. Robinson is a resident of British Columbia, Canada.

Family Relationships

Sarah Segal, Chief Executive Officer and Chief Brand Officer of DAVIDsTEA, is the daughter of Herschel Segal, Chairman of the Board of Directors and Strategic Advisor of the Company and the owner of Rainy Day Investments Ltd., which controls approximately 46% of the outstanding shares of DAVIDsTEA.

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Audit Committee

Function of Audit Committee

The Audit Committee of the Board of Directors (the "Audit Committee") operates under a written charter adopted by the Board of Directors. The Charter contains a detailed description of the scope of the Audit Committee's responsibilities and how they will be carried out. The Audit Committee Charter is available on our Investor Relations website at http://ir.davidstea.com under "Corporate Governance". The Audit Committee's primary responsibilities and duties include, but are not limited to:

- Assisting the Board in fulfilling its oversight responsibilities as they relate to the Company's accounting policies and internal controls, financial reporting practices and legal and regulatory compliance;
- reviewing the Company's compliance with certain legal and regulatory requirements;
- overseeing the process by which management shall design, implement, amend, maintain, and enforce a comprehensive system of financial controls (including the right internal and external people and resources, policies, processes and enforcement) and reviewing our financial reporting processes and internal controls;
- appointing, compensating, retaining and overseeing the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services and reviewing and appraising the audit efforts of our independent accountants;
- discussing the Company's major business, operational, and financial risk exposures and the guidelines, policies and practices regarding risk assessment and risk management, including derivative policies, insurance programs and steps management has taken to monitor and control major business, operational and financial risks;
- establishing procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and (ii) confidential and anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters;
- engaging independent counsel and other advisers, as necessary;
- determining funding of various services provided by accountants or advisers retained by the Audit Committee;
- establishing, maintaining and overseeing the Company's related party transaction policy, including overseeing the process for approval of all related-party transactions involving executive officers and directors; and
- providing an open avenue of communication among the independent accountants, financial and senior management and the Board.

Independence of Audit Committee Members

The members of the Audit Committee are Pat De Marco (chair), Susan L. Burkman and Peter Robinson. The Board has determined that each of them meets the independence requirements under the rules of the NASDAQ Global Market and under Rule 10A-3 under the Exchange Act.

Audit Committee Financial Experts

The Board has determined that Pat De Marco and Susan L. Burkman are "Audit Committee financial experts". All members of the Audit Committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and the NASDAQ Global Market.

Audited Financial Statements Included in Annual Report

Management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements and for the public reporting process. Ernst & Young LLP ("EY"), the Company's independent registered public accounting firm, is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with International Financial Reporting Standards.

The Audit Committee has reviewed and discussed with management and EY the Company's audited consolidated financial statements for the year ended January 30, 2021 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Audit Committee has also discussed with EY the matters required to be discussed by the PCAOB AS Section 1301, "Communication with Audit Committees." The Audit Committee received the written disclosures and the letter from EY that are required by PCAOB Rule 3526, "Communication with Audit Committees Concerning Independence," and has discussed with EY its independence. The Audit Committee considered whether EY's provision of non-audit services to the Company is compatible with maintaining EY's independence. This discussion and disclosure informed the Audit Committee's review of EY's independence and assisted the Audit Committee in evaluating that independence. On the basis of the foregoing, the Audit Committee concluded that EY is independent from the Company, its affiliates and management.

Based upon its review of the Company's audited consolidated financial statements and the discussions noted above, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements for the year ended January 30, 2021 be included in the Company's Annual Report on Form 10-K for such fiscal year for filing with the SEC. This report has been furnished by the members of the Audit Committee.

Pat De Marco, Chair
Susan L. Burkman
Peter Robinson

Corporate Governance

Statement of Corporate Governance Practices

As a reporting issuer in the Canadian Province of Québec with securities listed on Nasdaq, DAVIDsTEA complies with all applicable rules adopted by the AMF and the SEC. As a Canadian issuer, DAVIDsTEA is exempt from complying with many of the NASDAQ Corporate Governance Standards, provided that DAVIDsTEA complies with Canadian governance requirements. *Policy Statement 58-201 to Corporate Governance Guidelines* of the AMF provides guidance on governance practices for reporting issuers in the Province of Québec. Québec *Regulation 58-101 respecting Disclosure of Corporate Governance Practices* requires such issuers to make prescribed disclosure regarding their governance practices. The Board is of the view that DAVIDsTEA's corporate governance practices satisfy the foregoing requirements of the Province of Québec, as reflected in the disclosure made below. The Board of Directors has approved the disclosure of DAVIDsTEA's corporate governance practices described below, on the recommendation of the Corporate Governance and Nominating Committee ("CGNC").

Board of Directors

Independence

The Board of Directors consists of five directors, four of whom are non-employee directors. Herschel Segal, Pat De Marco, Emilia Di Raddo and Peter Robinson were elected as directors at the annual meeting of shareholders held on June 14, 2018. Susan L. Burkman was appointed as a director on August 23, 2018. All five directors were re-elected at the Company's annual meeting of shareholders held on July 31, 2020. Directors are elected or appointed to hold office until the next annual meeting of shareholders or until their earlier resignation or removal from office in accordance with the Company's by-laws.

Three of the five directors comprising the Board of Directors are considered "independent" pursuant to Section 1.4 of Québec Regulation 52-110 respecting Audit Committees. Under that provision, Susan L. Burkman, Pat De Marco and Peter Robinson are considered independent, while Herschel Segal is not considered to be independent in that he was within the last three years an executive officer of the Company and Emilia Di Raddo is not considered to be independent in light of her long-standing business relationship with Herschel Segal. The independence of directors is determined by the Board based on the results of independence questionnaires completed by each director annually, as well as other factual circumstances reviewed on an ongoing basis.

To enhance the independent judgment of the Board of Directors, the independent members of the Board of Directors may meet in the absence of members of management and the non-independent directors. An *in camera* session is scheduled as part of every meeting of the Board of Directors and its committees to allow independent directors to meet without non-independent directors and members of management, as necessary. All non-independent directors are responsible to the Board of Directors as a whole and have a duty of care to the Company.

As Herschel Segal, Chairman of the Board, is not an independent director, the Board of Directors appointed Pat De Marco, an independent director, as "Lead Director" on September 23, 2018 upon the recommendation of the CGNC.

The Board of Directors has adopted a Charter of the Board of Directors delineating its principal roles and responsibilities. The Charter of the Board of Directors is available on the Company's Investor Relations website at http://ir.davidstea.com under "Corporate Governance"

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Chair of the Board

Herschel Segal, Chairman of the Board, chairs meetings of the Board of Directors. Mr. Segal is not an independent director. As a result, on September 23, 2018, upon the recommendation of the CGNC, the Board of Directors appointed Pat De Marco, an independent director, as “Lead Director”. As Lead Director, Mr. De Marco provides leadership in ensuring Board effectiveness and is responsible for facilitating and encouraging open and effective communication between management of the Company and the Board of Directors, consulting with the Chairman of the Board in setting the agenda for Board meetings, ensuring Board committees function appropriately, chairing meetings of the independent members of the Board of Directors and chairing Board of Directors’ meetings if the Chairman of the Board is absent.

Conflicts of Interest

In accordance with applicable law and the Company’s policy, each director is required to disclose to the Board any potential conflict of interest he or she may have in a matter before the Board or a committee thereof at the beginning of the Board or committee meeting. A director who is in a potential conflict of interest must not attend any part of the meeting during which the matter is discussed or participate in a vote on such matter.

Formal Position Descriptions

The Board has not adopted formal position descriptions for the Chairman of the Board or the Board Committee Chairs. The Board has adopted a formal position description for the CEO.

Chairman of the Board

The Board of Directors has not adopted a written position description for the Chairman of the Board of Directors. The primary responsibilities of the Chairman of the Board are to provide leadership to the Board in order to enhance Board effectiveness and to oversee that the relationship among the Board, management, shareholders and other stakeholders is effective, efficient and further to the best interests of the Company, chair meetings of the Board of Directors, and ensure Board meetings function appropriately.

Committee Chairs

The Board of Directors has not adopted a written position description for the Chair of each Board Committee. The primary role and responsibility of the Chair of each Committee of the Board of Directors is to: (i) in general, ensure that the Committee fulfills its mandate, as determined by the Board of Directors; (ii) chair meetings of the Committee; (iii) report thereon to the Board of Directors; and (iv) act as liaison between the Committee and the Board of Directors and, if necessary, management of the Company.

Chief Executive Officer

The Board of Directors has adopted a written position description for the CEO. The position description provides that the CEO will report to the Board of Directors and that the prime responsibility of the CEO is to lead the Company by providing a strategic direction that includes the development and implementation of plans, policies, strategies and budgets for the growth and profitable operation of the Company. In fulfilling such responsibilities, the Chief Executive Officer will, among other things: (i) see that the day-to-day business affairs of the Company are appropriately managed; (ii) work with key stakeholders to develop the Company’s strategic plan that is aligned with the Board of Directors; (iii) recommend to the Board of Directors and, following their approval by the Board, consistently strive to achieve the Company’s financial and operating goals and objectives; (iv) formulate policies and proposed actions and present to the Board of Directors for approval the long-term business plan, strategies and policies that lead to the creation of shareholder value; (v) develop and recommend to the Board of Directors annual business plans and budgets that support the Company’s long-term business plan and strategies; and (f) oversee the Company’s achievement and maintenance of a satisfactory competitive position within its industry.

The Human Resources and Compensation Committee (“HRCC”) of the Board is responsible for the executive compensation programs for the Company’s executive officers and reports to the Board on its discussions, decisions and other actions. The HRCC reviews and approves corporate goals and objectives relating to the compensation of the CEO, evaluates the performance of the CEO in light of those goals and objectives and determines and approves the compensation of the CEO based on such evaluation.

Election of Directors

The articles of the Company provide that the Board shall consist of not less than three and not more than fifteen directors. Each director is elected for a one-year term ending at the next annual meeting of shareholders or when his or her successor is elected, unless he or she resigns or his or her office otherwise becomes vacant.

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Committees of the Board

The Board has established the Audit Committee, the HRCC and the CGNC and has delegated to each of these committees certain responsibilities that are set forth in their respective mandates.

Human Resources and Compensation Committee

The HRCC's primary purpose, with respect to compensation, is to assist the Board of Directors in fulfilling its oversight responsibilities and to make recommendations to the Board of Directors with respect to the compensation of the directors and executive officers. Independent consultants may be periodically retained to assist the HRCC in fulfilling its responsibilities when needed. As required in its mandate, the HRCC is composed of a majority of independent directors, including the Chairman of the committee who must qualify as an independent director. The three members of the HRCC are Susan L. Burkman (chair), Emilia Di Raddo and Peter Robinson. The HRCC Charter is available on our Investor Relations website at http://ir.davidstea.com under "Corporate Governance"

Corporate Governance and Nominating Committee

The primary purpose of the CGNC is to assist the Board of Directors in fulfilling its corporate governance and oversight responsibilities in connection with; monitoring the composition and performance of the Board and its committees, developing and implementing a Board succession planning process, overseeing corporate governance matters, and evaluating the performance of the Governance Committee.

The three members of the CGNC are Peter Robinson (chair), Susan L. Burkman and Pat De Marco, each of whom is an independent director. The Charter of the CGNC is available on our Investor Relations website at http://ir.davidstea.com under "Corporate Governance"

Board and Committee Meetings

During the period from February 2, 2020 to the date hereof, inclusively, the Board of Directors held 17 meetings, the Audit Committee held nine meetings, the HRCC held eleven meetings and the CGNC held four meetings. The Company does not have an Executive Committee. Attendance of directors at the meetings is set out in the table below.

	Board Meetings	Audit Committee Meetings	HRCC Meetings	CGNC Meetings	Total
Hershel Segal	17/17	—	—	—	17/17
Susan L. Burkman(1)	17/17	9/9	11/11	3/3	40/40
Pat De Marco	17/17	9/9	—	4/4	30/30
Emilia Di Raddo	17/17	—	11/11	—	28/28
Peter Robinson(2)	17/17	9/9	9/9	4/4	39/39
Ludwig Max Fischer(3)	10/11	—	2/2	1/1	13/14

(1) Susan L. Burkman was appointed to the CGNC on July 31, 2020.
(2) Peter Robinson was appointed to the HRCC on July 31, 2020.
(3) Ludwig Max Fischer served as a director until July 31, 2020.

In Camera Sessions

To enhance the independent judgment of the Board of Directors, the independent members of the Board of Directors may meet in the absence of the non-independent directors and members of management. Such meetings are chaired by the Lead Director. An *in camera* session is scheduled as part of every meeting of the Board of Directors and its committees to allow independent directors to meet without non-independent directors and members of management, as necessary.

Other Directorships

The following table sets out the sole director of the Company who is currently a director of another issuer that is a reporting issuer (or the equivalent) in a jurisdiction of Canada or a foreign jurisdiction:

Name of Director	Issuer
Emilia Di Raddo	Le Chateau Inc.

Ethical Business Conduct

The Company's Code of Ethics for Senior Managers and Financial Officers (the "Code of Ethics") is applicable to all of DAVIDsTEA's directors, senior managers and financial officers and has been developed to promote the honest and ethical conduct of our directors, senior managers and financial officers, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; to promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by the Company; and to promote compliance with all applicable rules and regulations that apply to the Company and its officers. The Code of Ethics is available on our Investor Relations website at http://ir.davidstea.com under "Corporate Governance" and on SEDAR at www.sedar.com. The Code of Ethics addresses several matters, including conflicts of interest, integrity of corporate records, confidentiality of corporate information, protection and use of corporate assets and opportunities, insider trading, compliance with laws and reporting of unethical or illegal behaviour. No waiver has ever been granted to a director or executive officer in connection with the Code of Ethics.

In addition to monitoring compliance with the Code of Ethics, the Board has adopted whistleblowing procedures for reporting unethical or questionable acts by the Company or employees thereof. Complaints can be made via telephone at a confidential line called the integrity line. Any human resources-related question is directed to our Head of Human Resources while any issue of misconduct or fraud is directed to the Chair of the Audit Committee who is responsible to oversee the whistleblowing procedures.

Board Mandate

The Board of Directors has adopted a Charter of the Board of Directors delineating its principal roles and responsibilities. The Charter of the Board of Directors is available on the Company's Investor Relations website at http://ir.davidstea.com under "Corporate Governance". As set out in the Charter of the Board of Directors, the responsibilities of the Board include the following:

(i) adopting a strategic planning process, and approving, on at least an annual basis, the principal business objectives for the Company;

(ii) identifying the principal risks applicable to the Company, ensuring that procedures are in place for the management of those risks with a view to the long-term viability of the Company and its assets, and conducting an annual review of such risks;

(iii) overseeing the Company's corporate governance policies and practices and their disclosure in public disclosure documents;

(iv) adopting a Code of Business Ethics and Conduct applicable to directors, officers and employees of the Company;

(v) satisfying itself of the integrity of the Chief Executive Officer and the other executive officers and ensuring that they create a culture of integrity throughout the organization;

(vi) appointing the Chief Executive Officer and, together with the Chief Executive Officer, developing the corporate goals and objectives that the Chief Executive Officer is responsible for meeting, and reviewing the performance of the Chief Executive Officer against such goals and objectives;

(vii) reviewing and approving the Company's financial statements, management's discussion and analysis, earnings press releases and other disclosure material filed with the securities commissions;

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(viii) reviewing and approving annual operating plans, budgets and significant capital allocations and expenditures and periodically receive an analysis of actual results versus approved budgets;

(ix) serving as an advisor to management and reviewing and approving major business decisions including material transactions outside the ordinary course of business and those matters which the Board is required to approve under the Company's governing statute, including the payment of dividends, the issuance, purchase and redemption of securities, and acquisitions and dispositions of material capital assets;

(x) reviewing and monitoring, with the assistance of the Audit Committee (a) the adequacy and effectiveness of the Company's internal controls and management information systems over financial reporting, including significant deficiencies and significant changes in internal controls, (b) the quality and integrity of the Company's external financial reporting processes, and (c) related procedures and reporting; and

(xi) overseeing, in consultation with management, compliance with disclosure requirements applicable to the Company, including disclosure of material information in accordance with applicable securities laws and stock exchange rules.

Board, Committees and Directors Performance Assessment

On an annual basis, the CGNC is responsible for the process of assessing the performance and effectiveness of the Board as a whole, the Board Committees, Committee Chairs and individual directors. Questionnaires are distributed to each director for the purpose of (i) evaluating the Board's responsibilities and functions, its operations, how it compares with boards of other companies on which the directors serve and the performance of the Board's Committees and (ii) inviting directors to make suggestions for improving the performance of the Chairman of the Board, Committee Chairs and individual directors. The results of the questionnaires are compiled by the CGNC on a confidential basis to encourage full and frank commentary. The CGNC can meet with Board members individually in order to discuss the questionnaires. The results of the questionnaires as well as any issues raised during individual discussions are presented and discussed at a following meeting of the Board. At all times, Board members are free to discuss among themselves the performance of a fellow director, or to submit such matter to the CGNC. Based on the outcome of the discussion, the CGNC then presents to the Board the assessment's findings and its recommendations to enhance the performance and effectiveness of the Board and its Committees.

Director Selection

Skills and Experience of Directors

The process by which the Board establishes new candidates for Board nominations lies within the discretion of the Board of Directors with a view of the best interests of the Company and in accordance with the corporate governance guidelines. Pursuant to the Company's governing statutes, and our articles and by-laws, new candidates for Board nominations can be proposed by the shareholders and will be voted on by the shareholders at each annual meeting of shareholders.

Nomination of Directors

Before making a recommendation on a new director candidate, the Chairman of the Board and members of the CGNC meet with the candidate to discuss the candidate's interest and ability to devote the time and commitment required to serve on the Board. In certain circumstances, the Board may also retain an independent recruiting firm to identify director candidates and fix such firm's fees and other retention terms.

Term Limits

The Board does not impose nor does it believe that it should establish term limits or retirement age limits for its directors, as such limits may cause the loss of experience and expertise important to the optimal performance of the Board.

Diversity and Gender Diversity

The Company does not have a formal policy on diversity on the Board of Directors or in senior management positions. The Company is, however, mindful of the benefit of diversity of the Board of Directors and senior management, including the representation of women, Aboriginal peoples, persons with disabilities and members of visible minorities on the Board and in senior management positions, and the need to maximize their effectiveness and respective decision-making abilities. Accordingly, in searches for new candidates, while the Company seeks to recruit or appoint the most qualified individuals for particular positions, it considers the merit of potential candidates based on a balance of skills, background, experience and knowledge, including taking diversity into consideration.

Director Orientation and Continuing Education

Orientation

The HRCC is responsible for developing, monitoring and reviewing the Company's orientation and continuing education programs for directors. New directors are provided with an information package on the Company's business, its strategic and operational business plans, its operating performance, its governance system and its financial position. Also, new directors meet individually with the Chief Executive Officer and other senior executives to discuss these matters. The Board ensures that prospective candidates fully understand the role of the Board and its Committees and the contribution that individual directors are expected to make, including, in particular, the personal commitment that the Company expects of its directors.

Continuing Education

All Board members regularly monitor the Corporation's website and have visited DAVIDsTEA's stores. Management makes presentations to the Board on a range of topics that are relevant to the Company's operations. Senior management makes regular presentations to the Board and its committees to educate them and keep them informed of developments within the Company's main areas of business and operations, as well as on key legal, regulatory and industry developments. Directors are also provided with Board and Board committee materials in advance of regularly-scheduled meetings. Directors receive periodic updates between Board meetings on matters that affect the Company's business. Finally, Board members have full access to the Company's senior management and employees.

ITEM 11. EXECUTIVE COMPENSATION

This section discusses the material components of the executive compensation program for our executive officers who are named in the "2020 Summary Compensation Table" below. In Fiscal 2020, our "Named Executive Officers" and their positions were as follows:

- Herschel Segal, Interim Chief Executive Officer from June 14, 2018 to December 16, 2020, Chairman of the Board since June 14, 2018, and Strategic Advisor since December 16, 2020
- Sarah Segal, Chief Executive Officer since December 16, 2020 and Chief Brand Officer since August 21, 2018
- Frank Zitella, President since December 16, 2020, Chief Operating Officer since April 26, 2019 and Chief Financial Officer since December 10, 2018
- Martin Hillcoat, Vice-President, Supply Chain
- Joe Bongiorno, Director of Finance
- Fiona Horgan, former Senior Vice-President, Merchandising

This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from the currently planned programs summarized in this discussion. See Part I on this Form 10-K "Cautionary Note Regarding Forward-Looking Statements".

Executive and Director Compensation

Processes and Procedures for Compensation Decisions

The HRCC is responsible for the executive compensation programs for our executive officers and reports to our Board on its discussions, decisions and other actions. The HRCC reviews and approves corporate goals and objectives relating to the compensation of our Chief Executive Officer, evaluates the performance of our Chief Executive Officer in light of those goals and objectives and determines and approves the compensation of our Chief Executive Officer based on such evaluation. The HRCC has the sole authority to determine our Chief Executive Officer's compensation. In addition, our HRCC, in consultation with our Chief Executive Officer, reviews and approves all compensation for the other officers and directors. Our Chief Executive Officer also makes compensation recommendations for our other executive officers and initially proposes the corporate and departmental performance objectives under our Executive Incentive Compensation Plan to the HRCC.

The HRCC is authorized to retain the services of one or more executive compensation and benefits consultants or other outside experts or advisors as it sees fit, in connection with the establishment of our compensation programs and related policies.

The Insider Trading Policy

The Company has adopted an insider trading policy that applies to the equity transactions of all of the employees, including most notably of directors and officers, including Named Executive Officers. Under the policy, transactions by covered individuals in the Company's securities are authorized only during insider trading windows (which open the second full day after financial results are released each quarter to permit market adjustments), and all transactions must be pre-approved and cleared by the Corporate Secretary so as to avoid any appearance of trading based on non-public information.

Hedging Prohibition

Hedging transactions can be accomplished through a variety of mechanisms including prepaid forward contracts, equity swaps and collars and other similar devices. Because hedging transactions permit the holder of the securities to continue to own the securities without the full risks and rewards of ownership, such transactions can cause the interests of such holder not to be aligned with our other shareholders and therefore the employees, officers and directors are prohibited from hedging any equity-based compensation or shares of the Company.

Automatic Securities Disposition Plan (10b5-1 Plan)

Automatic Securities Disposition Plans are permitted under the Insider Trading Policy and must be approved by the Corporate Secretary and meet the requirements of the *Securities Act* (Québec) and similar rules and regulations in other applicable Canadian securities laws as well as Rule 10b5-1(c)(1)(i)(B) under the Exchange Act. In general, such plans must be entered into at a time when the person entering into the plan is not aware of any material non-public information with respect to the Company.

Short-Term Incentive Plan

The annual incentive program is a cash bonus intended to compensate officers for achieving short-term corporate goals. It is also intended to reward the Named Executive Officers for both the overall performance of the Company and individual performance during the year. The Company believes that establishing cash bonus opportunities is an important factor in both attracting and retaining the services of qualified and highly-skilled executives. The HRCC determined that the most meaningful measure of successful growth was Comparable Sales and selected other financial objectives in line with the Company's short-term corporate goals, which, together with Comparable Sales, would form the basis for the annual incentive program. The HRCC reviews annually the weight attributed to each financial objective. Therefore, for fiscal 2020, the annual incentive formula attributed 75% to corporate Comparable Sales growth and 25% to other financial objectives. Notwithstanding the above formula, the HRCC may, in its sole discretion, adjust the calculated payment, as much as to cancel payment altogether, should it determine that the calculated payment requires adjustment. For the fiscal year ended January 30, 2021 the Company did not meet the annual incentive program targets.

Mid- and Long-Term Incentive Plans

In 2015, the Company adopted the 2015 Omnibus Equity Incentive Plan (the "2015 Omnibus Plan") in connection with its initial public offering. All equity and equity-based awards, including RSU awards to the Named Executive Officers granted during the fiscal year ended January 30, 2021, are made under the 2015 Omnibus Plan. As our common shares are currently traded solely on the NASDAQ Global Market, the grant value and number of units awarded are determined based on the U.S. dollar share price.

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The target award values for the Named Executive Officers are indicated in the table below. Actual awards for the fiscal year ended January 30, 2021 can be found in the summary compensation table set out below. Under the 2015 Omnibus Plan, when calculating the number of stock options and/or RSUs/performance share units granted based on the target award values, the Company determines the award value in the currency of the Named Executive Officer, and if in Canadian dollars, converts the dollar amount into U.S. dollars to determine the award value.

Name	Target Value	Maximum Value
	(% of salary)	
Herschel Segal	75%	150%
Sarah Segal	40%	80%
Frank Zitella	40%	80%
Martin Hillcoat	25%	50%
Joe Bongiorno	20%	40%
Fiona Horgan	25%	50%

Summary Compensation Table

The following table illustrates the compensation paid to the Named Executive Officers for the last three completed fiscal years, as applicable.

						Non-Equity Incentive Plan Compensation			
Name and Principal Position	Year ($)	Salary ($)	Bonus ($)	Stock Awards(1) ($)	Option Awards ($)	Annual Incentive Plan ($)	Long-term Incentive Plan ($)	All Other Compensation ($)	Total Compensation ($)
Herschel Segal(2)	2020	458,176	—	375,000	—	—	—	—	833,176
Former Interim Chief Executive Officer;	2019	400,000	—	240,000	—	—	—	—	640,000
Chairman of the Board and Strategic Advisor	2018	250,000	—	—	—	—	—	—	250,000

Sarah Segal(3) Chief Executive Officer and Chief Brand Officer	2020	327,224	—	92,000	—	—	—	—	419,224
	2019	230,000	—	92,000	—	—	—	—	322,000
	2018	230,000	—	72,661	—	—	—	—	302,661
Frank Zitella(4) President, Chief Financial Officer and Chief Operating Officer	2020	398,650	—	317,300	—	—	—	—	715,950
	2019	382,981	—	160,000	—	—	—	1,154	544,135
	2018	50,000	—	—	—	—	—	—	50,000
Martin Hillcoat(5) Vice-President, Supply Chain	2020	228,462	—	53,756	—	—	—	—	282,218
	2019	215,000	5,000	53,750	—	—	—	—	273,750
	2018	86,000	10,000	—	—	—	—	—	96,000
Joe Bongiorno Director of Finance	2020	237,183	—	36,004	18,525	—	—	1,181	274,364
	2019	181,884	—	36,001	—	—	—	1,181	219,065
	2018	169,922	—	27,248	—	—	—	1,096	198,265
Fiona Horgan(6) Former Senior Vice-President, Merchandising	2020	128,908	—	137,500	—	—	—	132,212(7)	398,620
	2019	84,571	—	—	—	—	—	—	84,571
	2018	—	—	—	—	—	—	—	—

Notes:

(1) Amounts shown reflect the aggregate grant date fair market value of time-vesting RSUs granted to Named Executive Officers on June 18, 2020, February 27, 2020, June 20, 2019 and April 19, 2018, respectively, under the 2015 Omnibus Plan, excluding the value of estimated forfeitures on the shares. Assumptions used in the calculation of these amounts are disclosed in note 15 to the Company's Consolidated Financial Statements for the year ended January 30, 2021 2021 ($1.00 USD = $1.28 CDN at January 30, 2021).
(2) Herschel Segal was appointed Interim Chief Executive Officer and Chairman of the Board on June 14, 2018 and resigned as Interim Chief Executive Officer effective December 16, 2020, at which time he was named Strategic Advisor.
(3) Sarah Segal was appointed Chief Brand Officer on August 21, 2018 and prior thereto was the Company's VP Product Development and Innovation. Sarah Segal was appointed Chief Executive Officer effective December 16, 2020.
(4) Frank Zitella was appointed Chief Financial Officer and Corporate Secretary on December 10, 2018, Chief Operating Officer on April 26, 2019, and President effective December 16, 2020.
(5) Martin Hillcoat was appointed Vice-President, Supply Chain on September 4, 2018.
(6) Fiona Horgan was appointed Senior Vice-President, Merchandising on January 20, 2020 and left the Company on July 15, 2020.
(7) This amount represents a severance payment made to Ms. Horgan upon her departure from the Company on July 15, 2020.

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Incentive Plan Awards

Outstanding share-based awards and option-based awards

The following table sets out information regarding outstanding awards in U.S. dollars held by the Named Executive Officers as of January 30, 2021.

	Option-based Awards				Share-based Awards			
Name	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**	**Grant date**	**Number of shares or units of stock that have not vested(1) (#)**	**Market value of shares or units of stock that have not vested(2) ($USD)**	**Market value of vested share-based awards not paid out or distributed**
Herschel Segal(3) Former Interim Chief Executive Officer; Chairman of the Board and Strategic Advisor	—	—	—	—	2020-06-18	262,818	880,440	—
					2019-06-20	137,657	461,151	
						400,475	1,341,591	
Sarah Segal Chief Executive Officer and Chief Brand Officer	—	—	—	—	2020-06-18	64,478	216,001	—
					2019-06-20	39,576	132,580	

					2018-04-19	8,360	28,006	
						112,414	376,587	
Frank Zitella	—	—	—	—	2020-06-18	112,136	375,656	—
President, Chief Financial Officer					2020-02-27	58,557	196,166	
and Chief Operating Officer					2019-06-20	68,829	230,577	
						239,522	802,399	
Martin Hillcoat	—	—	—	—	2020-06-18	37,671	126,196	—
Vice-President, Supply Chain					2019-07-12	19,569	65,556	
						57,240	191,752	
Joe Bongiorno	—	—	—	—	2020-06-18	25,230	84,521	—
Director of Finance					2019-07-12	13,017	43,607	
					2018-04-19	3,136	10,506	
						41,383	138,633	
Fiona Horgan(4)	—	—	—	—	2020-06-18	—	—	—
Former Senior Vice-President, Merchandising								

Notes:

(1) Unless earlier terminated, forfeited, relinquished or expired, the RSUs will vest as to one quarter of the shares on each of the first two anniversaries of the grant date and the remaining half of the RSUs will vest on the third anniversary of the grant date. Shares subject to the RSUs will not vest on any vesting date unless the Named Executive Officer has remained in continuous service from the date of grant through such vesting date, unless otherwise provided in the long-term incentive plan further discussed under “Compensation of Executive Officers and Directors”.
(2) The market value is calculated by multiplying the closing price of the Company’s common shares on the NASDAQ Global Market on January 31, 2020 (USD $1.44), being the last business day of the Company’s last fiscal year, by the number of RSUs that had not vested as of such date.
(3) Herschel Segal also holds DSUs awarded for his services as a director of the Company.
(4) Fiona Horgan left the Company on July 15, 2020.

Equity Compensation Plan Information

The table below illustrates the status of the shares reserved for issuance under the Company’s equity-based incentive plans.

Plan Category	**Plan Name**	**Number of securities to be issued upon exercise of outstanding options (#) (a)**	**Weighted average exercise price of outstanding options ($USD) (b)**	**Number of securities to be issued upon vesting of RSUs**	**Weighted average fair value price of RSUs ($USD)**	**Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) (c)**
Equity compensation plans approved by security holders	Amended and Restated Equity Incentive Plan(1)	14,000	4.30	—	—	—
	2015 Omnibus Equity Incentive Plan	3,490	14,39	1,306,101	1.33	1,200,323
Equity compensation plans not approved by security holders		—	—	—	—	—
Total		17,490	—	1,306,101	—	1,200,323

Notes:

(1) Since the adoption of the 2015 Omnibus Plan, no awards have been or will be made under the Amended and Restated Equity Incentive Plan. Outstanding options previously granted under the Amended and Restated Equity Incentive Plan remain subject to the terms thereof.

Termination and Change in Control Benefits

The Named Executive Officers would be entitled to the following payments and benefits in the event of termination of the executive's employment or a change of control of the Company pursuant to their respective employment agreements with the Company.

Sarah Segal

The Company entered into a new Executive Employment Agreement dated December 16, 2020 with Sarah Segal, which provides in part as follows:

If Sarah Segal's employment is terminated by the Company without "Cause" or she resigns for "Good Reason", as those terms are respectively defined in the Executive Employment Agreement, she will be entitled to (i) her earned but unpaid base salary, (ii) any unpaid business expense reimbursements, (iii) an amount payable for accrued but unused vacation days, and (iv) any awarded but unpaid bonus for the year preceding the year during which the resignation occurs, and a prorated portion of any bonus that becomes payable for that fiscal year, as determined by the HRCC at the end of that fiscal year (collectively, the "Termination Payments"). In addition, any stock options, RSUs, stock units or other long-term incentive grants held by Ms. Segal will be deemed vested on the date of termination.

Further, if Ms. Segal has less than 18 complete years of service with the Company as of the date on which the termination notice is given, the Company will pay an indemnity to her in lieu of notice equal to 18 months of her base salary, plus an amount equal to the performance-based bonus at "Target", as that term is defined in the Executive Employment Agreement, to be paid in a lump sum within five business days following the date of termination. If Ms. Segal has at least 18 complete years of service with the Company as of the date on which the termination notice is given, the Company will pay an indemnity to her in lieu of notice equal to 24 months of her base salary, plus an amount equal to two times the performance-based bonus at "Target", to be paid in a lump sum within five business days following the date of termination.

If Ms. Segal remains a full-time employee of the Company for a period of six months following a "Change of Control" of the Company, as that term is defined in the Executive Employment Agreement, she will be entitled to the Termination Payments and acceleration applicable in the event of termination without "Cause" or for "Good Reason".

Had Ms. Segal's employment been terminated without cause on January 30, 2021, the last business day of the Company's most recently-completed fiscal year, she would have been entitled to receive an incremental payment of approximately $1,562,031, subject to applicable withholding taxes.

Frank Zitella

The Company entered into a new Executive Employment Agreement dated December 16, 2020 with Frank Zitella, which provides in part as follows:

If Frank Zitella's employment is terminated by the Company without "Cause" or he resigns for "Good Reason", as those terms are respectively defined in the Executive Employment Agreement, he will be entitled to the Termination Payments. In addition, any stock options, RSUs, stock units or other long-term incentive grants held by Mr. Zitella will be deemed vested on the date of termination.

Further, if Mr. Zitella has less than ten complete years of service with the Company as of the date on which the termination notice is given, the Company will pay an indemnity to him in lieu of notice equal to twelve months of his base salary, plus an amount equal to the performance-based bonus at "Target", as that term is defined in the Executive Employment Agreement, to be paid in a lump sum within five business days following the date of termination. If Mr. Zitella has more than ten complete years and less than 18 years of service with the Company as of the date on which the termination notice is given, the Company will pay an indemnity to him in lieu of notice equal to 18 months of his base salary, plus an amount equal to 1.5 times the performance-based bonus at "Target", to be paid in a lump sum within five business days following the date of termination. If Mr. Zitella has at least 18 complete years of service with the Company as of the date on which the termination notice is given, the Company will pay an indemnity to him in lieu of notice equal to 24 months of his base salary, plus an amount equal to two times the performance based bonus at Target, to be paid in a lump sum within five business days following the date of termination.

If Mr. Zitella remains a full-time employee of the Company for a period of six months following a "Change of Control" of the Company, as that term is defined in the Executive Employment Agreement, he will be entitled to the Termination Payments and acceleration applicable in the event of termination without "Cause" or for "Good Reason".

Had Mr. Zitella's employment been terminated without cause on January 30, 2021, the last business day of the Company's most recently-completed fiscal year, he would have been entitled to receive an incremental payment of approximately $1,834,571, subject to applicable withholding taxes.

2015 Omnibus Plan

The following is a description of provisions of the 2015 Omnibus Plan relating to the effect of termination of employment and related matters.

Termination for Cause

Vested and unvested awards will be forfeited immediately at the time of termination for cause.

Termination Due to Death

Upon death, all time-based awards will immediately vest and performance awards will vest at the target level of performance. Options will remain exercisable until the earlier of the one-year anniversary of the executive's death or the award's normal expiration date.

Termination Due to Disability

Upon a termination of employment due to disability, all time-based awards will immediately vest and performance awards will remain eligible to vest to the extent the applicable performance goals are achieved. Options will remain exercisable until the earlier of the one-year anniversary of the participant's termination of employment due to disability or the award's normal expiration date.

Retirement

Awards other than stock options will vest based pro rata of the number of elapsed days between the start of the performance period and the complete three-year period. If a performance condition is attached to the vesting, the outstanding awards will be treated as per the achievement of the performance criterion at the time of retirement. Vested options will remain exercisable for a period of five years following retirement or until the original option expiry date. For purposes of the plan, retirement is defined as 65 years of age and 55 years of age with ten years of service or more.

Voluntary Resignation

Vested options will remain exercisable until the earlier of the one-year anniversary of the termination of employment or the award's normal expiration date. Unvested awards will be forfeited at the time of such termination.

Involuntary Termination

Upon an involuntary termination of employment by the Company, options will be forfeited to the extent then unvested and vested options will remain exercisable until the earlier of the one-year anniversary of the participant's termination of service or the award's normal expiration date. RSUs and performance awards will be deemed vested pro rata based on the number of days in a specified period (i.e. the period from the date of grant to the third anniversary of the grant date) that have elapsed from the date of grant to the six-month anniversary of the date of the termination of employment, with the vesting of performance awards to be subject to performance assessed as of the date of such termination of employment.

Change in Control

Upon a termination by the Company other than for cause within twelve months following a change in control, to the extent granted prior to the time of the change in control and then outstanding, all time-based awards will vest and performance awards will vest at the target level of performance. Options will remain exercisable until the earlier of the one-year anniversary of the participant's termination of employment or service due to disability or the award's normal expiration date.

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Director Compensation

Compensation of Directors

The Company's compensation policy for directors is designed to enable the Company to attract and retain highly qualified non-employee directors. Under the policy adopted on June 10, 2020, directors received the cash and equity compensation set forth below.

Non-Executive Board Chair	
Annual retainer	$100,000
Annual target equity grant	20,000 RSUs or deferred share units ("**DSUs**"), at the option of the chair
Board members	
Annual retainer	$50,000
Annual target equity grant	10,000 RSUs or DSUs, at the option of the director
Board meeting fees	$1,000 per meeting attended
Lead Director	
Annual retainer	$25,000
Audit Committee Chair	
Additional annual retainer	$15,000 minimum
Audit Committee meeting fees	$1,000 per meeting attended
Human Resources and Compensation Committee Chair	
Additional annual retainer	$10,000 minimum
Human Resources and Compensation Committee meeting fees	$1,000 per meeting attended
Corporate Governance and Nominating Committee Chair	
Additional annual retainer	$10,000 minimum
Corporate Governance and Nominating Committee meeting fee....	$1,000 per meeting attended

Under the Company's non-employee director compensation policy, annual retainers and meeting fees are paid in quarterly cash payments. At a meeting of the Board of Directors held on April 17, 2020, the directors agreed to a reduction of 20% in all annual retainers for the balance of 2020. At a meeting of the Board of Directors held on December 11, 2020, upon the recommendation of the HRCC, the Board determined that the base compensation of the chairs of the various committees of the Board of Directors return to 100%.

Equity grants generally will be made in the form of RSUs or DSUs granted under the Equity Incentive Plan and will generally vest in full on the first anniversary of the grant date.

Director Compensation Table

The following table sets out information concerning all amounts of compensation provided to the directors of the Company for their services in that capacity for the fiscal year ended January 30, 2021.

Name	Fees earned ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation($)	Pension value ($)	All other compensation ($)	Total ($)
Herschel Segal	90,986	—	—	—	—	—	90,986
Susan L. Burkman	83,656	14,270	—	—	—	—	97,926
Pat De Marco	110,000	14,270	—	—	—	—	124,270
Emilia Di Raddo	62,000	14,270	—	—	—	—	76,270
Peter Robinson	84,000	14,270	—	—	—	—	98,270
Ludwig Max Fischer(1)	45,000	14,270	—	—	—	—	59,270

Note:

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(1) Ludwig Max Fischer served as a director until July 31, 2020.

The directors are reimbursed by the Company for the reasonable costs and expenses incurred in connection with attending meetings of the Board of Directors and its committees including, to the extent applicable, the cost of travel on commercial aircraft.

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Value vested or earned during the year for directors

The following table sets out information regarding option-based awards and share-based awards that vested in the fiscal year ended January 30, 2021 for our directors. All share-based awards that vested in the fiscal year are disclosed in U.S. dollars.

Name	Option-based awards - Value vested during the year (1) ($)	Share-based awards - Value vested during the year ($USD)	Non-equity incentive plan compensation - Value earned during the year ($)
Herschel Segal	—	—	—
Susan L. Burkman	—	—	—
Pat De Marco	—	—	—
Emilia Di Raddo	—	7,575	—
Peter Robinson	—	7,575	—
Ludwig Max Fischer(2)	—	7,575	—

Notes:

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(1) The directors do not hold any stock options.
(2) Ludwig Max Fischer served as a director until July 31, 2020.

Indebtedness of Directors and Officers

As of January 30, 2021, no executive officer, director or employee, former or present, of the Company or a subsidiary thereof, no person who is a nominee for election as a director of the Company, and no associate of such persons, is, or was at any time since the beginning of the fiscal year ended January 30, 2021, indebted to the Company or a subsidiary thereof, nor has any such person been indebted at any time since the beginning of the fiscal year ended January 30, 2021 to any other entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or a subsidiary thereof.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table and accompanying footnotes set forth information relating to the beneficial ownership of our common shares as of April 26, 2021 by;

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our outstanding common shares,
- each of our directors and director nominees,
- each of our Named Executive Officers, and
- all directors and executive officers as a group.

Our major shareholders do not have voting rights that are different from our shareholders in general.

Each shareholder's percentage ownership is based on 26,255,769 common shares outstanding as of April 26, 2021.

Beneficial ownership is determined in accordance with SEC rules. In general, under these rules a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares voting power or investment power with respect to such security. A person is also deemed to be a beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within 60 days. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all common shares held by that person. Our common shares that a person has the right to acquire within 60 days of April 26, 2021 are deemed outstanding for purposes of computing the percentage ownership of such person holding, but are not deemed outstanding for purposes of computing the percentage ownership of any other person, except with respect to the percentage ownership of all directors, director nominees and executive officers as a group. As of April 26, 2021, 1,485 shares were owned by 3 United States holders of record.

Unless otherwise indicated below, the address for each beneficial owner listed is c/o DAVIDsTEA Inc., 5430 Ferrier, Mount-Royal, Québec, Canada, H4P 1M2.

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Transfer Agent and Registrar

The Company's transfer agent and registrar is AST Trust Company (Canada), 320 Bay Street, B1 Level, Toronto, Ontario, Canada M5H 4A6.

	Shares Beneficially Owned as at January 30, 2021	
Name of beneficial owner	**Number of shares (#)**	**Percentage of shares (%)**
Beneficial Owners of more than 5% of our common shares and/or selling shareholders:		
Rainy Day Investments Ltd.(1)	12,012,538	45.79%
Named Executive Officers and Directors:		
Herschel Segal(2)	431,998	1.65%
Frank Zitella(3)	279,458	1.07%
Sarah Segal(4)	129,353	*
Pat De Marco(5)	25,000	*
Emilia Di Raddo(6)	30,514	*
Peter Robinson(7)	17,068	*
Susan L. Burkman(8)	22,001	*
All executive officers and directors as a group	935,392	3.57%

Notes:

* represents less than 1%.
(1) Rainy Day Investments Ltd. ("Rainy Day") is a company controlled by Herschel Segal, Chairman of the Board of the Company, who holds voting and investment control over the shares held by Rainy Day. The principal business address for Rainy Day is 5695 Ferrier, Mount Royal, Québec, Canada, H4P 1N1.
(2) Herschel Segal holds 262,818 RSUs, 167,657 DSUs and 1,523 common shares.
(3) Frank Zitella holds 239,522 RSUs and 39,936 common shares.
(4) Sarah Segal holds 112,414 RSUs and 16,939 common shares.
(5) Pat De Marco holds 25,000 DSUs.
(6) Emilia Di Raddo holds 10,000 RSUs and 20,514 common shares.
(7) Peter Robinson holds 10,00 RSUs and 7,068 common shares.
(8) Susan L. Burkman holds 10,000 RSUs, 7,500 DSUs and 4,501 common shares.

ITEM 13. 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 21 – Related party transactions, in this Annual Report and excerpts included herein.

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

The Company, as lender, entered into a loan agreement dated May 7, 2019 with Oink Oink Candy Inc., doing business as "Squish", as borrower, and Rainy Day, as guarantor, pursuant to which the Company agreed to lend to Squish an amount of up to $4.0 million. The loan agreement was amended on September 13, 2019 to reflect a maximum amount of $2.0 million. The interest rate on the loan was equal to the prime rate of the Bank of Montreal plus 1%, and was payable monthly. Rainy Day guaranteed all of Squish's obligations to the Company under the loan agreement and, as security in full for the guarantee, granted a movable hypothec (or lien) in favour of the Company on its shares of the Company. Squish is a company controlled by Sarah Segal, Chief Executive Officer and Chief Brand Officer of DAVIDsTEA. Rainy Day, the principal shareholder of DAVIDsTEA, is controlled by Herschel Segal, Chairman, director and Strategic Advisor of DAVIDsTEA and father of Sarah Segal. The Company and Squish previously entered into a Collaboration and Shared Services Agreement pursuant to which they collaborate on and share various services and infrastructure.

On April 29, 2020, the loan in the amount of $2.0 million and outstanding interest thereon was repaid in full.

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Purchase of merchandise for resale from a company controlled by an executive of the Company

During the year ended January 30, 2021, the Company purchased merchandise for resale from a company controlled by one of its executive officers amounting to $139 [February 1, 2020 — $124; February 2, 2019 — $241]. As of January 30, 2021, an amount of nil [February 1, 2020 — $48] was outstanding and presented in Trade and other payables.

Infrastructure and administrative services provided to a company controlled by an executive of the Company

The Company also provided infrastructure and administrative services of $90 [February 1, 2020 — $312; February 2, 2019 — nil] to a company controlled by one of its executive officers. As of January 30, 2021, the amount of $43 [February 1, 2020 — $312] was outstanding and presented in Accounts and other receivables.

Purchase of perpetual license rights to a reporting data model, associated intellectual property and consulting services from a related party of the principal shareholder

During the year-ended January 30, 2021, the Company purchased a perpetual license rights to a reporting data model and associated intellectual property for nil [February 1, 2020 — $200] and spent $53 [February 1, 2020 — $237; February 2, 2019 — nil] for consulting services from a related party of the principal shareholder. As of January 30, 2021, an amount of nil [February 1, 2020 — $28] was outstanding and presented in Trade and other payables.

Reimbursement of proxy contest related charges to a controlling shareholder

During the year ended February 2, 2019, the Company reimbursed Rainy Day Investments Ltd. ("Rainy Day Investments"), a controlling shareholder $957 for third-party costs incurred by it in connection with the proxy contest which culminated at the Company's annual meeting held on June 14, 2018. This reimbursement was approved by the independent members of the Board of Directors of the Company. This amount is included in selling, general and administration expenses.

Director Independence

Three of the five directors that make up our board of directors are considered "independent" pursuant to Section 1.4 of Québec *Regulation 52-110 respecting Audit Committees* under Canadian securities laws and NASDAQ rules. Under these rules, Susan L. Burkman, Pat De Marco and Peter Robinson are considered independent, whereas Herschel Segal is not considered to be independent in that he was within the last three years an executive officer of the Company and Emilia Di Raddo is not considered to be independent in light of her long-standing business relationship with Herschel Segal. The independence of directors is determined by the Board based on the results of independence questionnaires completed by each director annually, as well as other factual circumstances reviewed on an ongoing basis.

To enhance the independent judgment of the Board of Directors, the independent members of the Board of Directors frequently meet in the absence of members of management and the non-independent directors. An *in camera* session is scheduled as part of every meeting of the Board of Directors and its committees to allow independent directors to meet without non-independent directors and members of management, as necessary. All non-independent directors are responsible to the Board of Directors as a whole and have a duty of care to the Company.

Family Relationships

Sarah Segal, Chief Executive Officer and Chief Branding Officer of DAVIDsTEA, is the daughter of Herschel Segal, who is the owner of Rainy Day. Rainy Day owns approximately 46% of the outstanding shares of the Company. Mr. Segal is Chairman of our Board of Directors.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets out the aggregate fees billed to the Company for the fiscal years ended January 30, 2021 and February 1, 2020 by EY:

	For the year ended	
	January 30, 2021	**February 1, 2020**
Audit fees (1)	**701,000**	583,000
Audit-related fees (2)	-	-
Tax fees (3)	**119,896**	132,521
All other fees (4)	-	-
	820,896	715,521

Notes:

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

All fees paid and payable by the Company to EY in Fiscal 2020 and Fiscal 2019 were pre-approved by the Company's Audit Committee pursuant to the procedures and policies set forth in the Audit Committee mandate. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval. The Chair of the Audit Committee is also authorized, pursuant to delegated authority, to pre-approve additional services on a case-by-case basis, and such approvals are communicated to the full Audit Committee at its next meeting.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Form 10-K:

(a)(1) Financial Statements

The audited consolidated financial statements of the Company filed as part of this Annual Report on Form 10-K are included in Part II, Item 8, and include:

Report of Independent Registered Public Accounting Firm
As of January 30, 2021, and February 1, 2020
  Consolidated Balance Sheets
For the years ended January 30, 2021, February 1, 2020, and February 2, 2019:
  Consolidated Statements of Loss and Comprehensive Loss
  Consolidated Statements of Cash Flows
  Consolidated Statements of Equity
  Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedule

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

		Incorporated by Reference		
Exhibit Number	Description of Document	Form	Filing Date	Exhibit Number
3.1	Form of Amended and Restated Articles of Incorporation of DAVIDsTEA Inc.	F-1/A	5/18/2015	3.1
3.2	Amended and Restated Bylaws of DAVIDsTEA Inc.	F-1	4/2/2015	3.2
4.1	Description of Share Capital	10-K	5/2/2019	4.1
10.2	Amended and Restated Equity Incentive Plan, as amended	F-1	4/2/2015	10.3
10.3	2015 Omnibus Incentive Plan	F-1	4/2/2015	10.14
10.4	Form of Non statutory Stock Option Award Agreement under 2015 Omnibus Incentive Plan	F-1	4/2/2015	10.15
10.5	Form of Restricted Stock Unit Award Agreement Under 2015 Omnibus Incentive Plan	F-1	4/2/2015	10.16
10.6	Form of Indemnification Agreement for Directors and Officers	F-1	4/2/2015	10.17
10.7	Agreement of Lease between DAVIDsTEA Inc. and S. Rossy Investments Inc., dated July 22, 2013	F-1	4/2/2015	10.41
10.8	Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated April 28, 2010	F-1	4/2/2015	10.42
10.9	First Addendum to Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated January 19, 2011	F-1	4/2/2015	10.43
10.10	Second Addendum to Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated September 2, 2011	F-1	4/2/2015	10.44
10.11	Third Amendment to Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated February 20, 2014	F-1	4/2/2015	10.45
10.24	Loan Agreement, effective May 7, 2019, as amended September 13, 2019, between DAVIDsTEA Inc. and Oink Oink Candy Inc.	8-K	9/17/2019	10.1

10.25	Movable Hypothec on Securities between DAVIDsTEA Inc. and Rainy Day Investments LTD.	8-K	9/17/2019	10.2
10.26	Collaboration and Shared Services Agreement, effective February 21, 2019, between DAVIDsTEA Inc. and Oink Oink Candy Inc.	8-K	9/17/2019	10.3
21.1	[Subsidiaries of the Registrant]		Filed herewith	
23.1	Consent of Independent Registered Public Accounting Firm		Filed herewith	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		Filed herewith	
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		Filed herewith	
32.2	Certification of Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		Filed herewith	
101.INS	XBRL Instance Document		Filed herewith	
101.SCH	XBRL Taxonomy Extension Schema		Filed herewith	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase		Filed herewith	
101.LAB	XBRL Taxonomy Extension Label Linkbase		Filed herewith	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase		Filed herewith	
101.DEF	XBRL Taxonomy Extension Definition Linkbase		Filed herewith	

ITEM 16. FORM 10-K SUMMARY

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DAVIDsTEA INC.

Date: April 30, 2021

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

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ Herschel Segal Name: Herschel Segal	Chairman of the Board
/s/ Sarah Segal Name: Sarah Segal	Chief Executive Officer and Chief Brand Officer (principal executive officer)
/s/ Frank Zitella Name: Frank Zitella	President, Chief Financial and Operating Officer (principal financial officer and principal accounting officer)
/s/ Pat De Marco Name: Pat De Marco	Director
/s/ Emilia Di Raddo Name: Emilia Di Raddo	Director
/s/ Susan L. Burkman Name: Susan L. Burkman	Director
/s/ Peter Robinson Name: Peter Robinson	Director

Date: April 30, 2021

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-205058) pertaining to the Amended and Restated Equity Incentive Plan and 2015 Omnibus Equity Incentive Plan of DAVIDsTEA Inc. of our report dated April 30, 2021, with respect to the consolidated financial statements of DAVIDsTEA Inc. included in this Annual Report (Form 10-K) for the year ended January 30, 2021, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Montreal, Canada

April 30, 2021

EXHIBIT 31.1

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

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

1. I have reviewed this annual report on Form 10-K of DAVIDsTEA Inc.;

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

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

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

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

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

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

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

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

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

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

Date: April 30, 2021

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

EXHIBIT 31.2

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

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

1. I have reviewed this annual report on Form 10-K of DAVIDsTEA Inc.;

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

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

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

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

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

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

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

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

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

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

Date: April 30, 2021

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

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Interim Chief Executive Officer and Chairman of the Board of DAVIDsTEA Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's Form 10-K for the fiscal year ended January 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Company's Form 10-K for the fiscal year ended January 30, 2021 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2021

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

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of DAVIDsTEA Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's Form 10-K for the fiscal year ended January 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Company's Form 10-K for the fiscal year ended January 30, 2021 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2021	By:	*/s/ Frank Zitella*
	Name:	Frank Zitella
	Title:	President, Chief Financial and Operating Officer