ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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 February 1, 2020 and February 2, 2019, the related consolidated statements of loss and comprehensive loss, cash flows and equity for each of the three years in the period ended February 1, 2020 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 February 1, 2020 and February 2, 2019 and the results of its operations and its cash flows for each of the three years in the period ended February 1, 2020, 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 Note 2 to the consolidated financial statements, the Company 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 4 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, and subsequently changed its transition methodology during the year.

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.

/s/ Ernst & Young LLP[1]

We have served as the Company's auditor since 2011.

Montréal, Canada
June 15, 2020

[1] CPA, Auditor, CA, public accountancy permit no. A123806

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

		As at	
		February 1, 2020	**February 2, 2019**
		$	**$**
ASSETS			
Current			
Cash		**46,338**	42,074
Accounts and other receivables	[Note 6]	**6,062**	3,681
Inventories	[Note 7]	**22,363**	34,353
Income tax receivable		**1,196**	4,107
Prepaid expenses and deposits		**4,542**	8,819
Total current assets		**80,501**	93,034
Property and equipment	[Note 8]	**17,737**	23,788
Intangible assets	[Note 9]	**6,339**	5,678
Right-of-use assets	[Note 4, 10]	**35,082**	—
Total assets		**139,659**	122,500
LIABILITIES AND EQUITY			
Current			
Trade and other payables	[Note 11]	**20,794**	20,951
Deferred revenue	[Note 12]	**6,852**	6,241
Current portion of provisions	[Note 13]	**—**	3,714
Current portion of lease liabilities	[Note 10]	**16,434**	—
Total current liabilities		**44,080**	30,906
Deferred rent and lease inducements	[Note 4]	**—**	8,698
Provisions	[Note 13]	**—**	15,440
Non-current portion of lease liabilities	[Note 10]	**72,230**	—
Total liabilities		**116,310**	55,044
Commitments and contingencies	[Note 14]		
Equity			
Share capital	[Note 15]	**112,843**	112,519
Contributed surplus		**1,577**	1,400
Deficit		**(92,278)**	(47,960)
Accumulated other comprehensive income		**1,207**	1,497
Total equity		**23,349**	67,456
Total liabilities and equity		**139,659**	122,500

See accompanying notes

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		
		February 1, 2020 $	February 2 2019 $	February 3, 2018 $
Sales	[Note 21]	**196,462**	212,753	224,015
Cost of sales		**87,886**	114,774	116,772
Gross profit		**108,576**	97,979	107,243
Selling, general and administration expenses	[Note 18]	**135,306**	125,722	131,930
Results from operating activities		**(26,730)**	(27,743)	(24,687)
Finance costs	[Note 16]	**6,751**	1,614	2,371
Finance income		**(784)**	(700)	(567)
Loss before income taxes		**(32,697)**	(28,657)	(26,491)
Provision for income tax (recovery)	[Note 17]	**(1,500)**	4,882	2,010
Net loss		**(31,197)**	(33,539)	(28,501)
Other comprehensive loss				
Items to be reclassified subsequently to income:				
Unrealized net gain on forward exchange contracts		—	—	(992)
Realized net loss on forward exchange contracts reclassified to inventory		—	230	309
Provision for income tax recovery		—	(63)	183
Cumulative translation adjustment		**(290)**	(425)	(932)
Other comprehensive income (loss), net of tax		**(290)**	(258)	(1,432)
Total comprehensive loss		**(31,487)**	(33,797)	(29,933)
Net loss per share:				
Basic and fully diluted	[Note 19]	**(1.20)**	(1.29)	(1.11)
Weighted average number of shares outstanding				
Basic and fully diluted	[Note 19]	**26,056,332**	25,967,836	25,716,186

See accompanying notes

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	For the year ended		
	February 1, 2020 $	February 2 2019 $	February 3, 2018 $
OPERATING ACTIVITIES			
Net loss	**(31,197)**	(33,539)	(28,501)
Items not affecting cash:			
Depreciation of property and equipment	**5,411**	6,904	8,431
Amortization of intangible assets	**1,934**	1,298	1,474
Amortization of right-of-use assets	**12,051**	—	—
Loss on disposal of property and equipment	**100**	1,875	82
Impairment of property, equipment and right-of-use assets	**17,780**	9,960	15,069
Interest on lease liabilities	**6,962**	—	—
Deferred rent	—	25	542
Recovery for onerous contracts	—	6,282	10,321
Stock-based compensation expense	**813**	211	2,021
Amortization of financing fees	—	64	79
Accretion on provisions	—	251	2,292
Deferred income taxes	—	5,069	3,585
Sub-total	**13,854**	(1,600)	15,395
Net change in other non-cash working capital balances related to operations	**19,254**	(11,628)	(5,537)
Cash flows from (used in) operating activities	**33,108**	(13,228)	9,858
FINANCING ACTIVITIES			
Proceed from issuance of common shares pursuant to exercise of stock options	**14**	82	1,782
Payment of lease liabilities	**(23,206)**	—	—
Cash flows from (used in) financing activities	**(23,192)**	82	1,782
INVESTING ACTIVITIES			
Additions to property and equipment	**(1,032)**	(3,898)	(9,634)
Additions to intangible assets	**(2,594)**	(4,366)	(2,962)
Loan to a Company controlled by an executive employee	**(2,026)**	—	—
Cash flows used in investing activities	**(5,652)**	(8,264)	(12,596)
Increase (decrease) in cash during the period	**4,264**	(21,410)	(956)
Cash, beginning of the period	**42,074**	63,484	64,440
Cash, end of the period	**46,338**	42,074	63,484
Supplemental Information			
Cash paid for:			
Interest	**50**	—	—
Income taxes (classified as operating activity)	—	10	880
Cash received for:			
Interest	**778**	650	574
Income taxes (classified as operating activity)	**2,948**	1,774	68

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: Accumulated Derivative Financial Instrument Adjustment $	Accumulated Foreign Currency Translation Adjustment $	Accumulated Other Comprehensive Income $	Total Equity $
Balance, February 3, 2018	111,692	2,642	(14,721)	(167)	1,922	1,755	101,368
Net loss for the twelve months ended February 2, 2019	—	—	(33,539)	—	—	—	(33,539)
Other comprehensive loss	—	—	—	167	(425)	(258)	(258)
Total comprehensive loss	—	—	(33,539)	167	(425)	(258)	(33,797)
Issuance of common shares	164	(82)	—	—	—	—	82
Common shares issued on vesting of restricted stock units	663	(1,370)	300	—	—	—	(407)
Stock-based compensation expense	—	211	—	—	—	—	211
Income tax impact associated with stock options	—	(1)	—	—	—	—	(1)
Balance, February 2, 2019	112,519	1,400	(47,960)	—	1,497	1,497	67,456
Balance, February 2, 2019	**112,519**	**1,400**	**(47,960)**	**—**	**1,497**	**1,497**	**67,456**
IFRS 16 adoption adjustment (1)	**—**	**—**	**(13,333)**	**—**	**—**	**—**	**(13,333)**
Adjusted balance at beginning of period	**112,519**	**1,400**	**(61,293)**	**—**	**1,497**	**1,497**	**54,123**
Net loss for the twelve months ended February 1, 2020	**—**	**—**	**(31,197)**	**—**	**—**	**—**	**(31,197)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(290)**	**(290)**	**(290)**
Total comprehensive loss	**—**	**—**	**(31,197)**	**—**	**(290)**	**(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**	**1,207**	**23,349**

(1) Restated – note 4.

See accompanying notes

DAVIDsTEA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 1, 2020, February 2, 2019 and January 28, 2017

[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 subsidiary (collectively, the "Company") for the year ended February 1, 2020 were authorized for issue in accordance with a resolution of the Board of Directors on June 15, 2020. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the NASDAQ Global Market under the symbol "DTEA". The registered office is located at 5430, Ferrier Street, Town of Mount-Royal, Quebec, Canada, H4P 1M2.

The Company is engaged in the retail and online sale of tea, tea accessories, and food and beverages in Canada and in the United States. Sales fluctuate from quarter to quarter. Sales are traditionally higher 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 traffic during the summer months.

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. Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

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 February 2, 2019 and February 1, 2020 cover a 52-week period. The year ended February 3, 2018 covers a 53-week fiscal period.

Going Concern Uncertainty

In December 2019, a novel strain of coronavirus, known as 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 close all of its retail locations across North America effective March 17, 2020 until further notice.

As the Company adapts its business strategy to the current environment, it has taken decisive actions, subsequent to year-end, to align expenses with its continuing online and wholesale sales channel revenues. This includes temporarily furloughing all of its store related employees and non-essential head office staff and moving substantially all remaining employees to a four-day work week. In addition, management and members of the Board have agreed to reduced compensation during this crisis. These measures, among others, are intended to better align the Company's cost structure with its current sales and help preserve its financial position.

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 outbreak is unknown and may influence consumer shopping behavior and consumer demand including online shopping.

For the year ended February 1, 2020, the Company incurred a net loss of $31.2 million. The Company's current liabilities total $44.1 million as at February 1, 2020. As at February 1, 2020, the Company held cash and accounts and other receivables of $52.4 million. The Company does not currently have any third-party financing available with which to meet any future financial obligations. Based on its current projections, the Company has sufficient cash and accounts and other receivables to discharge its current liabilities in the next 12 months; however, it has experienced significant net losses in Fiscal Years 2017 to 2019 of $28.5 million, $33.5 million and $31.2 million, respectively. The Company's ability to continue as a going concern is dependent on its ability to stabilize its business from unfavorable trend lines, strengthening its business by focusing on how to grow its product portfolio including sales and customer service execution, and effectively optimizing its North American retail footprint to emerge as a leaner, more sustainable physical presence that complements a growing world-class online and grocery business, all supported by a right-sized support organization. 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 outbreak and changes in consumer behavior. If the Company is unable to execute these or other related strategies, the Board of Directors of the Company may pursue a formal restructuring, reorganization or other similar actions under applicable Canadian and/or United States laws.

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 February 1, 2020 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

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.

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 initial term of the leases, plus one renewal option period, not to exceed 10 years.

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

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.

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 recognised 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.

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.

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.

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 from retail sales is recorded upon delivery to the customer. Revenue is recognized on e-commerce sales when merchandise is delivered. Revenues are recorded net of discounts, rebates, estimated returns, sales taxes and amounts deferred related to the issuance of Frequent Steeper points.

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.

Store opening costs

Store opening costs are expensed as incurred.

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.

4. CHANGES IN ACCOUNTING PRINCIPLES

Recently Adopted Accounting Pronouncements

IFRS 16 – Leases

IFRS 16, "Leases'' ("IFRS 16'') replaces IAS 17, "Leases'' and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The lessee recognizes a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessors continue to classify leases as finance and operating leases. Certain exemptions will apply for short-term leases and leases of low value assets. The new standard became effective for annual periods beginning on or after January 1, 2019.

Nature of the effect of adoption of IFRS 16

The Company has adopted IFRS 16 as at February 3, 2019. Substantially all of the Company's existing leases are real estate leases for its retail stores, warehouse and corporate head office. The adoption of IFRS 16 had a significant impact as the Company recognized new assets and liabilities. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Company has elected to apply the modified retrospective method by setting right-of-use assets based on the lease liability at the date of initial application, adjusted by the amount of any prepaid or accrued lease payments with no restatement of the prior comparative period. Upon adoption of IFRS 16, the Company has applied the following practical expedients:

- applying IFRS 16 exclusively to contracts that were previously identified as leases applying IAS 17 at the date of initial application;
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- not separating the lease component and its associated non-lease component.

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"). When appropriately performing the assessment of impairment indicators with respect to the right-of-use assets ("ROU assets") as at May 4, 2019 and August 3, 2019, impairment charges of $13,924 and $5,025 respectively were identified that would have been required to be recognized in the respective periods under the Company's accounting policy for transition to IFRS 16, which included the use of the practical expedient for assessing impairment. Upon further review, the Company also determined that, pursuant to IFRS standards, its financial statements would be more relevant had they applied IAS 36 to assess impairment of ROU assets as of the date of initial adoption, instead of applying the available practical expedient. Accordingly, the Company elected to voluntarily change its accounting policy to perform an impairment assessment in accordance with IAS 36 at the date of transition to IFRS 16. The Company believes this change is more relevant because it more faithfully depicts the performance of the Company. Subsequent to the retrospective application of the change in accounting policy, the impairment charges were nil and $5,025 for the quarter ended May 4, 2019 and the two quarters ended August 3, 2019, respectively.

Effects of the restatement

Based on the impairment test performed at February 3, 2019 upon the voluntary change to the Company's method of transition to IFRS 16 to eliminate the use of the practical expedient, the Company's ROU assets were impaired upon initial adoption by $32,487 as compared to the application of the previously recognized onerous lease provisions of $19,154 against the ROU assets. The difference that results from performing an IAS 36 impairment test at February 3, 2019 and the application of the practical expedient related to onerous leases results from a difference in the application of certain assumptions required under the two standards. The Company previously had recorded a reduction to the deficit of $1,280 on transition to IFRS 16. After the application of the voluntary change in accounting policy, the deficit increased by $14,613 to $61,293. The additional reduction in the initial value of the ROU assets resulted in a decrease in amortization expense in the three-month periods ended May 4, 2019 and August 3, 2019 of $689 and $699 respectively.

The following table illustrates the effect of the voluntary change in accounting policy on the adoption of IFRS 16 as at February 3, 2019:

	February 2, 2019	**IFRS 16 Adoption**	**February 3, 2019 As previously reported**	**Change in policy Adjustment**	**February 3, 2019 Restated**
ASSETS					
Right-of-use assets	**—**	**75,596**	**75,596**	**(14,613)**	**60,983**
Other assets	**122,500**	**—**	**122,500**	**—**	**122,500**
Total assets	**122,500**	**75,596**	**198,096**	**(14,613)**	**183,483**
LIABILITIES					
Lease liability	**—**	**102,168**	**102,168**	**—**	**102,168**
Deferred rent and lease inducements	**8,698**	**(8,698)**	**—**	**—**	**—**
Provisions	**19,154**	**(19,154)**	**—**	**—**	**—**
Other liabilities	**27,192**	**—**	**27,192**	**—**	**27,192**
Total liabilities	**55,044**	**74,316**	**129,360**	**—**	**129,360**
EQUITY					
Deficit	**(47,960)**	**1,280**	**(46,680)**	**(14,613)**	**(61,293)**
Other	**115,416**	**—**	**115,416**	**—**	**115,416**
Total equity	**67,456**	**1,280**	**68,736**	**(14,613)**	**54,123**
TOTAL LIABILITIES AND EQUITY	**122,500**	**75,596**	**198,096**	**(14,613)**	**183,483**

For leases previously classified as operating leases, the Company recorded the right-of-use assets based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Due to this, the Company derecognized an amount of $8,698 that was previously included under deferred rent and leasehold inducements with a corresponding adjustment to the right-of-use asset.

The lease liabilities as at February 3, 2019 can be reconciled to the operating lease commitments as of February 2, 2019 as follows:

	February 3, 2019 $
Minimum lease payments under operating lease	**116,772**
Discounted using a weighted average incremental borrowing rate of 6.63%	**(24,484)**
Discounted non-lease component associated with lease component pursuant to practical expedient	**9,880**
	102,168

Operating lease payments, which were previously included in cost of sales on the consolidated statement of income, are replaced with depreciation expenses (included in selling, general and administrative expenses) from the right-of-use asset and interest expense (included under finance costs) from the lease liability.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23, "Uncertainty over Income Tax Treatments" (the "Interpretation"), was issued by the IASB in June 2017. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- Measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The adoption of this Interpretation did not have an impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

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

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

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

Recoverability and impairment of non-financial assets

Non-financial assets, including property and equipment, and right-of-use assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for impairment is conducted by comparing the carrying amount of the CGU's assets with their respective recoverable amounts based on value in use. Value in use is determined based on management's best estimate of expected future cash flows, which includes estimates of growth rates, from use over the remaining lease term and discounted using a pre-tax weighted average cost of capital (Note 8).

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

ii. 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 the inherent uncertainties, the extent of the impact of the COVID-19 pandemic on the Company's results of operations and cash flows is difficult to estimate, and required actions difficult to predict. 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 three 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).

6. ACCOUNTS AND OTHER RECEIVABLES

	February 1, 2020 $	February 2, 2019 $
Credit card cash clearing receivables	849	1,477
Trade receivables	2,072	420
Loan to a Company controlled by one of the Company executive employees	2,026	—
Other receivables	1,115	1,784
	6,062	3,681

7. INVENTORIES

	February 1, 2020 $	February 2, 2019 $
Finished goods	**18,590**	28,991
Goods in transit	**2,059**	3,262
Packaging	**1,714**	2,100
	22,363	34,353

During the year ended February 1, 2020, inventories recognized as cost of sales amounted to $56,310 [February 2, 2019 —$63,195, February 3, 2018 - $64,611]. The cost of inventory includes a write-down of nil [February 2, 2019 – $703, February 3, 2018 - nil] recorded as a result of net realizable value being lower than cost. Inventory write-downs of $406 [February 2, 2019 - nil, February 3, 2018 – $730] recognized in the previous years were reversed.

8. PROPERTY AND EQUIPMENT

	Leasehold improvements $	Furniture and equipment $	Computer hardware $	Total $
Cost				
Balance, February 3, 2018	80,633	12,639	5,144	98,416
Acquisitions	2,096	1,125	676	3,897
Disposals	(68)	(32)	—	(100)
Cumulative translation adjustment	1,481	178	58	1,717
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**

	Leasehold improvements $	Furniture and equipment $	Computer hardware $	Total $
Accumulated depreciation and impairment				
Balance, February 3, 2018	51,296	7,346	3,216	61,858
Depreciation	5,117	1,134	653	6,904
Impairment	8,164	1,411	351	9,926
Disposals	—	(16)	—	(16)
Cumulative translation adjustment	1,297	126	47	1,470
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**
Net Carrying Value				
Balance, February 2, 2019	18,268	3,909	1,611	23,788
Balance, February 1, 2020	**13,402**	**3,169**	**1,166**	**17,737**

For the year ended February 1, 2020, 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 performing below the Company's expectations. As a result, an impairment loss of $1,587 related to store leasehold improvements was recorded [February 2, 2019 - $9,926, February 3, 2018 — $15,069 related to store leasehold improvements, furniture and equipment and computer hardware]. The impairment was recorded in the Canada and U.S. segments for $1,535 and $52, respectively [February 2, 2019 – $7,686 and $2,240, February 3, 2018 - $5,114 and $9,955, respectively].

The Company also recorded an impairment loss of $16,193 related to the Company's right-of-use assets [February 2, 2019 - nil, February 3, 2018 - nil]. The impairment was recorded in the Canada and U.S. segments for $10,552 and $5,641, respectively.

These losses were determined by comparing the carrying amount of the CGU's net assets with their respective recoverable amounts based on value in use. Value in use of $6,466 [February 2, 2019 – nil , February 3, 2018 —$1,097] was determined based on management's best estimate of expected future cash flows from use over the remaining lease terms, considering historical experience as well as current economic conditions, and was then discounted using a pre-tax discount rate of 12.1% [February 2, 2019 – 11.9%, February 3, 2018 — 11.9%].

A reversal of impairment occurs when previously impaired CGUs see improved financial results. For the year ended February 1, 2020, no impairment losses were reversed [February 2, 2019 - nil, February 3, 2018 - $866]. Impairment losses were reversed only to the extent that the carrying amounts of the CGU's net assets do not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

For the year ended February 1, 2020, the depreciation expense was $5,411 [February 2, 2019 - $6,904, February 3, 2018 —$8,431]; with $4,659 recorded in the Canada segment [February 2, 2019 - $5,825, February 3, 2018 — $6,387], $219 recorded in the U.S. segment [February 2, 2019 - $520, February 3, 2018 — $1,508], and

$533 recorded in corporate selling, general and administration expenses [February 2, 2019 - $559, February 3, 2018 — $536]. Depreciation expense and net impairment losses are 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 3, 2018	9,279	269	9,548
Acquisitions	4,356	—	4,356
Disposal	(1,724)	(178)	(1,902)
Cumulative translation adjustment	4	10	14
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**
Accumulated amortization			
Balance, February 3, 2018	5,019	90	5,109
Amortization	1,281	17	1,298
Impairment	34	—	34
Disposal	—	(111)	(111)
Cumulative translation adjustment	2	6	8
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**
Net Carrying Value			
Balance, February 2, 2019	5,579	99	5,678
Balance, February 1, 2020	**6,238**	**101**	**6,339**

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

Included in disposal is a write-off of – nil [February 2, 2019 - $1,724; February 3, 2018 – nil,] related to costs incurred with respect to an ERP upgrade which the Company no longer intends to continue.

10. LEASES

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 3,2019	60,983	102,168
Additions	2,179	2,179
Amortization expense	(12,051)	—
Impairment of right-of-use assets	(16,193)	—
Interest expense	—	6,962
Payments	—	(23,206)
CTA	164	561
Balance, February 1, 2020	**35,082**	**88,664**

Presented as:		
Current	—	16,434
Non-Current	35,082	72,230

Depreciation expense is reported in the consolidated statement of loss and comprehensive loss under Selling, general and administration expenses. Impairment losses related to right-of-use assets have been recorded in Selling, general and administration expenses in the amount of $16,193. Refer to note 8 for further details.

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

	February 1, 2020 $
Within one year	**22,378**
After one year but not more than five years	**78,035**
More than five years	**9,511**
	109,924

The Company recognized variable lease payments of $1,274 for the year ended February 1, 2020. 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

	February 1, 2020 $	February 2, 2019 $
Trade payable and accrued liabilities	**16,582**	14,990
Income taxes payable	**1,244**	2,700
Wages, salaries and employee benefits payable	**2,968**	3,261
	20,794	20,951

12. DEFERRED REVENUE

	February 1, 2020 $	February 2, 2019 $
Gift cards liability	**4,899**	4,992
Loyalty program liability	**1,953**	1,249
	6,852	6,241

During the year, the Company recorded gift card breakage income of $1,294 [February 2, 2019 - $242, February 3, 2018 - $575]. Gift card breakage is included in sales in the consolidated statement of loss.

13. PROVISIONS

	February 1, 2020 $	February 2, 2019 $
Opening balance	**19,154**	18,153
Impact of adoption of IFRS 16 **[Note 4]**	**(19,154)**	—
Additions	—	11,078
Reversals	—	(4,796)
Utilization	—	(5,730)
Settlements	—	(691)
Accretion expense	—	251
Cumulative translation adjustment	—	889
Ending balance	—	19,154
Less: Current portion	—	(3,714)
Long-term portion of provisions	—	15,440

During the year ended February 2, 2019, provisions for onerous contracts were recognized in respect of store leases where the unavoidable costs of meeting the obligations under the lease agreements exceeded the economic benefits expected to be received from the contract. The unavoidable costs reflect the present value of the lower of the expected cost of terminating the contract and the expected net cost of operating under the contract. Additions to the onerous provisions were recorded in the amount $11,078, while the provisions for other stores were fully or partially reversed in the amount of $4,796.

14. COMMITMENTS AND CONTINGENCIES

As at Feb 1, 2020, 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 are payable in the amount of $11,450. The payments on these commitments are due in less than a year.

15. SHARE CAPITAL

Authorized

An unlimited number of common shares.

Issued and Outstanding

	February 1, 2020 $	February 2, 2019 $
Share Capital - 26,086,162 Common shares (February 2, 2019 - 26,011,817)	112,843	112,519

	Common shares #
Number of shares in issuance	
Balance, February 3, 2018	25,885,372
Issuance of common shares upon exercise of options	51,717
Issuance of common shares upon vesting of restricted stock units	74,728
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**

During the year ended February 1, 2020, 18,500 stock options were exercised for common shares, 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, February 3, 2018 — 456,773 stock options for cash proceeds of $1,782]. The carrying value of common shares during the year ended February 1, 2020 includes $7 [February 2, 2019 - $82] which corresponds to a reduction in the contributed surplus associated to options exercised during the period.

In addition, during the year ended February 1, 2020, 55,845 common shares [February 2, 2019 – 74,728, February 3, 2018 —97,648] were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of $303, net of tax [February 2, 2019 - $663, February 3, 2018 – 1,142].

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 February 1, 2020, 1,823,962 common shares remain available for issuance under the 2015 Omnibus Plan.

No options were granted for the year ended February 1, 2020 [February 2, 2019 – 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			
	February 1, 2020		February 2, 2019	
	Options outstanding #	Weighted average exercise price $	Options outstanding #	Weighted average exercise price $
Outstanding, beginning of year	**137,540**	**7.17**	447,779	7.18
Issued	—	—	—	—
Exercised	**(18,500)**	**0.77**	(88,135)	2.76
Forfeitures	**(42,690)**	**6.72**	(222,104)	8.95
Outstanding, end of period	**76,350**	**8.96**	137,540	7.17
Exercisable, end of period	**75,475**	**8.90**	80,332	4.74

The weighted average share price at the date of exercise for options exercised during the year ended February 1, 2020 was $2.28 [February 2, 2019 — $4.47].

The following table summarizes information about the stock options outstanding at February 1, 2020 and February 2, 2019:

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**

Range of exercise prices	Number outstanding at February 2, 2019 #	Weighted average contractual remaining life (years)	Weighted average exercise price $	Number of options exercisable at February 2, 2019 #	Weighted average exercise price $
$0.77	31,100	1.1	0.77	31,100	0.77
$3.33 - $4.31	35,000	2.6	4.29	35,000	4.29
$8.76 - $10.28	53,225	5.1	10.28	—	—
$14.39 - $17.99	18,215	4.2	14.51	14,232	14.54
As at February 2, 2019	**137,540**	**3.4**	**7.17**	**80,332**	**4.74**

A summary of the status of the Company's RSU plan and changes during the years ended February 1, 2020 and February 2, 2019 is presented below.

	For the year ended			
	February 1, 2020		February 2, 2019	
	RSUs outstanding #	Weighted average fair value per unit (1) $	RSUs outstanding #	Weighted average fair value per unit (1) $
Outstanding, beginning of year	**270,976**	**5.26**	289,416	9.70
Granted	**804,710**	**1.93**	491,450	4.47
Forfeitures	**(188,685)**	**3.17**	(360,371)	6.31
Vested	**(78,465)**	**5.41**	(74,728)	8.85
Vested, withheld for tax	**(59,014)**	**5.51**	(74,791)	8.60
Outstanding, end of period	**749,522**	**2.17**	270,976	5.26

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

During the year ended February 1, 2020, the Company recognized a stock-based compensation expense of $813 [February 2, 2019 - $211, February 3, 2018 — $2,021].

16. FINANCE COSTS

	For the year ended		
	February 1, 2020 $	February 2, 2019 $	February 3, 2018 $
Accretion on provisions	-	251	2,292
Interest and penalty on provision for uncertain tax position	**(250)**	1,300	-
Interest on lease liabilities	**6,962**	-	-
Other finance costs	**39**	63	79
	6,751	1,614	2,371

17. INCOME TAXES

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

	For the year ended					
	February 1, 2020		February 2, 2019		February 3, 2018	
	%	$	%	$	%	$
Income tax recovery — statutory rate	**26.8**	**(8,747)**	26.9	(7,700)	26.8	(7,097)
Increase (decrease) in provision for income tax (recovery) resulting from:						
Non-deductible items	**(0.7)**	**232**	(1.3)	378	(1.6)	437
Effect of substantively enacted income tax rate changes	**(1.2)**	**394**	—	—	(7.9)	2,090
Unrecognized deferred income tax assets	**(25.2)**	**8,232**	(15.0)	4,306	(16.7)	4,415
Write-down of deferred income tax assets	—	—	(18.2)	5,194	(7.8)	2,054
Provision for uncertain tax position	**4.6**	**(1,500)**	(9.4)	2,700	—	—
Other	**0.3**	**(111)**	—	4	(0.4)	111
Income tax provision (recovery) — effective tax rate	**4.6**	**(1,500)**	(17.0)	4,882	(7.6)	2,010

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

	For the year ended		
	February 1, 2020 $	February 2, 2019 $	February 3, 2018 $
Income tax provision (recovery)			
Current	**(1,500)**	(187)	(1,575)
Deferred	—	5,069	3,585
	(1,500)	4,882	2,010

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was signed into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, The Company's net deferred taxes reported on the balance sheet were required to be re-measured using the newly enacted rates. The effect of this re-evaluation resulted in a decrease in the net deferred tax assets in the amount of $4,892 during the year ended February 3, 2018.

The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Company in future years, including the creation of a new Base Erosion Anti-Abuse Tax that subjects certain payments from U.S. corporations to foreign related parties to additional taxes, and limitations to certain deductions for net interest expense incurred by U.S. corporations. The U.S. Tax Reform also includes an increase in bonus depreciation from 50% to 100% for qualified property placed in service after September 27, 2017 and before 2023. Future regulations and interpretations to be issued by U.S. authorities may also impact the Company's estimates and assumptions used in calculating its income tax provisions.

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. The Company revised its estimate for this uncertain tax position to $1.2 million and $1.0 million for taxes and interest, respectively, as a result of a settlement reached with the taxation authorities after year-end.

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

	February 1, 2020 $	February 2, 2019 $
Deferred income tax assets		
Operating losses carried forward	**7,893**	1,417
Tax values of property and equipment in excess of carrying value including impairment	**2,330**	3,505
Deferred rent	**-**	1,762
Stock options	**3,763**	3,843
Financing fees and IPO-related costs	**5**	588
Lease inducements	**-**	634
Lease liabilities	**23,942**	
Provisions for onerous contracts	**-**	5,357
Other	**953**	665
Total deferred income tax assets	**38,886**	17,771
Deferred income tax liabilities		
Right of use assets	**-9,444**	-
Unrealized foreign exchange gain related to intercompany advances	**(109)**	(212)
Deferred income tax liabilities	**(9,553)**	(212)
Net	**29,333**	**17,559**
Unrecognized deferred income tax asset	**(29,333)**	(17,559)
Net deferred income tax assets (liabilities)	**-**	-

As at February 1, 2020, the Company's Canadian operations have accumulated losses amounting to $19.5 million [February 2, 2019 — $11.9 million; February 3, 2018 — nil], which expire during the year 2040. As at February 1, 2020, the Company's U.S. subsidiary has accumulated losses amounting to US$17.2 million [February 2, 2019 — US$14.0 million; February 3, 2018 — US$14.2 million], which expire during the years 2033 to 2040.

Based upon the projections for future taxable income and prudent tax planning strategies, 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 $29,333 was recorded against the net deferred income tax asset.

During the year, $3,542 of previously unrecognized deferred tax assets were written off to retained earnings as a result of the adoption of IFRS 16.

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

	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	**6,476**	158
Property and equipment, including store impairment	**-1,175**	1,952
Stock options	**-80**	442
Financing fees and IPO-related costs	**-583**	(609)
Foreign exchange gain on derivative financial instrument	**0**	(62)
Unrealized foreign exchange gain on intercompany advances	**103**	(99)
Right of use asset	**-9,444**	-
Lease liabities	**23,942**	-
Lease inducement	**-634**	120
Unrecognized deferred income tax asset	**(11,774)**	(7,770)
Provisions for onerous contracts	**(5,357)**	544
Other	**288**	29
Deferred income tax assets net, end of year	**-**	-

18. SELLING, GENERAL AND ADMINISTRATION EXPENSES

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

	For the year ended		
	February 1, 2020 $	February 2, 2019 $	February 3, 2018 $
Wages, salaries and employee benefits	**65,288**	68,324	65,888
Marketing Expenses	**7,282**	6,248	4,560
Stores Supplies	**5,768**	5,101	5,437
Depreciation of property and equipment	**5,411**	6,904	8,431
Amortization of intangible assets	**1,934**	1,298	1,474
Amortization right-of-use asset	**12,051**	—	—
Loss on disposal of property and equipment	**100**	151	82
Impairment of property, equipment and right-of-use assets	**17,780**	9,960	15,069
Recovery of provision for onerous contracts	—	552	7,854
Stock-based compensation	**813**	211	2,021
Executive separation cost related to salary	—	1,280	2,033
Strategic review and proxy contest	—	3,593	—
ERP project termination	—	2,496	—
Other selling, general and administration	**18,879**	19,604	19,081
	135,306	125,722	131,930

19. EARNINGS PER SHARE

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

	For the year ended		
	February 1, 2020 $	February 2, 2019 $	February 3, 2018 $
Net loss for basic EPS	**(31,197)**	(33,539)	(28,501)
Weighted average number of shares outstanding:			
Basic and fully diluted	**26,056,332**	25,967,836	25,716,186
Net loss per share:			
Basic and fully diluted	**(1.20)**	(1.29)	(1.11)

For the years ended February 1, 2020, February 2, 2019, and February 3, 2018, as a result of the net loss during the year, the stock options and RSUs disclosed in Note 15 are anti-dilutive.

20. 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 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.

As of February 1, 2020, $2.0 million was outstanding under the agreement at an effective interest rate of 5%. Subsequent to year-end, the $2.0 million loan and outstanding interest were 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 February 1, 2020, the Company purchased merchandise for resale from a company controlled by one of its executive employees amounting to $124 [February 2, 2019 — $241; February 3, 2018 — 87]. As of February 1, 2020, an amount of $48 was outstanding and presented in Trade and other payables.

The Company also provided infrastructure and administrative services of $312 [February 2, 2019 — nil; February 3, 2018 — nil] to a company controlled by one of its executive employees. As of February 1, 2020, the amount of $312 was outstanding and presented in Accounts and other receivables. Subsequent to year-end, the amount was fully paid.

During the year-ended February 1, 2020, the Company purchased perpetual license rights to a reporting data model and associated intellectual property for $200 [February 2, 2019 — nil] and spent $237 [February 2, 2019 — nil; February 2018 — nil] for consulting services from a related party of the principal shareholder. As of February 1, 2020, an amount of $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.

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		
	February 1, 2020 $	February 2, 2019 $	February 3, 2018 $
Wages, salaries ,bonus and director fees	**2,784**	2,706	4,071
Termination benefits	**110**	1,025	1485
Stock-based compensation	**669**	101	1,809
Total compensation earned by key management personnel	**3,563**	3,832	7,365

21. SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has reviewed its operations and determined that each of its retail stores represents an operating segment. However, because its retail stores have similar economic characteristics, sell similar products, have similar types of customers, and use similar distribution channels, the Company has determined that these operating segments can be aggregated at a geographic level. As a result, the Company has concluded that it has two reportable segments, Canada and the U.S., that derive their revenues from the retail and online sale of tea, tea accessories, and food and beverages. The Company's Chief Executive Officer (the chief operating decision maker or "CODM") makes decisions about resources to be allocated to the segments and assesses performance, and for which discrete financial information is available.

The Company derives revenue from the following products:

	For the year ended		
	February 1, 2020 $	February 2, 2019 $	February 3, 2018 $
Tea	**148,846**	152,761	156,125
Tea accessories	**34,003**	44,436	49,470
Food and beverages	**13,613**	15,556	18,420
	196,462	212,753	224,015

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

	February 1, 2020 (1) $	February 2, 2019 $	February 3, 2018 $
Canada	**52,116**	27,996	37,234
US	**7,042**	1,470	3,763
Total	**59,158**	29,466	40,997

(1) Includes right-of-use assets of $35,082 as a result of the adoption of IFRS 16 on February 3, 2019. Refer to Note 4.

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

	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, 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)**
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, 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)
Loss before income taxes			(28,657)

	For the year ended February 3, 2018		
	Canada	US	Consolidated
	$	$	$
Sales	185,287	38,728	224,015
Cost of sales	93,383	23,389	116,772
Gross profit	91,904	15,339	107,243
Selling, general and administration expenses (allocated)	54,884	18,302	73,186
Impairment of property, equipment and right-of-use assets	5,114	9,955	15,069
Impact of onerous contracts	1,752	6,102	7,854
Results from operating activities before corporate expenses	30,154	(19,020)	11,134
Selling, general and administration expenses (non-allocated)			35,821
Results from operating activities			(24,687)
Finance costs			2,371
Finance income			(567)
Loss before income taxes			(26,491)

22. 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 some of its purchases are denominated in U.S. dollars, the Company is exposed to foreign exchange risk. The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. The Company is exposed to currency risk through its cash, accounts receivable and accounts payable denominated in U.S. dollars.

Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net loss in the amount of $169.

The Company's foreign exchange exposure is as follows:

	February 1, 2020 US$	February 2, 2019 US$
Cash	**1,928**	267
Accounts receivable	**778**	1,142
Accounts payable	**6,090**	3,869

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 February 1, 2020, the Company had $46.3 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 $20.4 million (2019 - $18.3 million), and it purchase obligations amounting to $11.5 million (2018 - $9.1 million), will be discharged within 90 days. 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 and derivative financial instruments. Accounts receivable primarily consists of receivables from retail 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, and a loan made to a Company controlled by one of the Company's executive employees ("related party loan"). Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored. Subsequent to year end, we received all amounts due under the related party loan. 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.

23. MANAGEMENT OF CAPITAL

The Company's capital is composed of shareholders' equity as follows:

	February 1, 2020 $	February 2, 2019 $
Cash	**46,338**	42,074
Shareholder's equity [excluding accumulated other comprehensive income]	**22,142**	65,959
Total capital under management	**68,480**	108,033

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.

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.

24. GUARANTEES

Some agreements to which the Company is party, specifically those related to debt agreements and the leasing of its premises, 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 February 1, 2020, 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 as well as those of its subsidiary.

25. SUBSEQUENT EVENTS

Subsequent to February 1, 2020, the COVID-19 pandemic and the closure of all of its stores has had a material adverse impact on the Company's business, liquidity, financial condition, and results of operations. The Company cannot predict whether, when or the manner in which the conditions surrounding the COVID-19 pandemic will change including the timing of lifting any restrictions or closure requirements, when its stores will reopen, staffing levels for reopened stores, and customer re-engagement with its brand.

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Areas of significant estimation with respect to future performance of the Company include primarily impairment testing of non-financial assets, particularly cash flows generated by CGUs as a result of store closures, and the measurement of lease liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The Company cannot estimate the financial effects of these events at this time. Additional impacts to the business may arise that the Company is not aware of currently.

Subsequent to year-end and as of June 15, 2020, the Company has received notices of default for unpaid rents from 37 landlords representing 53 of its retail stores for which rent was not paid for the months of April, May and June as a result of the closure of all of its retail locations as disclosed in note 2. We also received rent deferral notices from 13 landlords representing 60 of our retail stores. With regard both the defaulted leases and rent deferral notices, the Company has either determined to terminate the lease or is in the process of discussing resolution of the current situation regarding rent payments with the landlords. The Company can provide no assurances that an agreement or resolution regarding the defaulted leases will be reached or any forbearance of its lease obligations will be provided regarding its other lease agreements.

In addition, subsequent to year end, the Company did not renew three store leases in Canada and exited one store early in the US. As at June 15, 2020, the Company is in negotiations for the exit of eight additional stores