

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

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

Forward-Looking Statements

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

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

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

- ☐ The effects of our Restructuring Plan pursuant to the CCAA in Canada and recognition of the CCAA proceedings in the United States under Chapter 15 of the United States Bankruptcy Code;
- ☐ Our ability to decrease losses, primarily by optimizing our North American retail footprint through termination or renegotiation of a significant number of our retail store leases and the uncertainty as to how we will achieve the optimization, raises substantial doubt about our ability to continue as a going concern;
- ☐ The duration and impact of the global COVID-19 pandemic, which has disrupted the Company's business and has adversely affected the Company's financial condition and operating results, and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners;
- ☐ Our efforts to renegotiate terms of our retail store leases, as well as future lease liabilities;
- ☐ Our ability to avoid the delisting of the Company's common stock by Nasdaq due to the Restructuring Plan or our inability to maintain compliance with Nasdaq listing requirements;
- ☐ Our strategy of transitioning to generating sales from our e-commerce platform and wholesale distribution capabilities, including our ability to attract and retain employees that are instrumental to growing our online and wholesale channel businesses;
- ☐ Our ability to manage significant changes to our leadership team;
- ☐ Our ability to maintain and enhance our brand image;
- ☐ Significant competition within our industry;
- ☐ The effect of a decrease in customer traffic to where our stores are located;
- ☐ Our ability to attract and retain employees that embody our culture, including Tea Guides and store and district managers and regional directors;
- ☐ Changes in consumer preferences and economic conditions affecting disposable income;

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

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

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

Accounting Periods

All references to “Fiscal 2020” are to the Company’s fiscal year ending January 30, 2021. All references to “Fiscal 2019” are to the Company’s fiscal year ended February 1, 2020. All references to “Fiscal 2018” are to the Company’s fiscal year ended February 2, 2019.

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 1, 2020 and January 30, 2021 both cover a 52-week period.

Overview

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

The Company has a history of losses over the last several years and the COVID-19 pandemic required an acceleration of its transformation initiatives. Consumer purchasing preferences have increasingly been trending away from brick-and-mortar and increasingly towards online and alternative channels over the last several years. In Fiscal 2019 while over 80% of the Company’s revenues were generated from on average 234 brick-and-mortar stores, same-stores sales declined by 12.7% as compared to Fiscal 2018. E-commerce and wholesale revenues during Fiscal 2019 increased by 20.9 % compared to Fiscal 2018.

We believe that our proprietary loose-leaf tea assortment and related product suite differentiates us from competitors in North America and resonates with our target customer base. Our strategy is to stabilize our business from unfavorable trend lines by playing to our core strengths and strengthening our business by focusing on how to grow our product portfolio. This includes migrating sales to a virtual experience and best-in-class customer service execution. Our Restructuring Plan is focused on effectively optimizing our 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.

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

On July 8, 2020, the Company announced that it was implementing the Restructuring Plan under the CCAA in order to accelerate its transition to an online retailer and wholesaler of high-quality tea and accessories and that during the restructuring process, the Company will continue to operate its online business through its e-commerce platform at www.davidstea.com and its wholesale distribution channel, through which it sells a selection of DAVIDsTEA products in grocery stores and pharmacies across Canada. Following a careful review of available options to stem the losses from its brick-and-mortar footprint, the Company's management and Board of Directors determined that a formal restructuring process was the best option in the context of an increasingly challenging retail environment, further exacerbated by the COVID-19 pandemic.

On July 8, 2020, the Company obtained the Initial Order pursuant to the CCAA from the Quebec Superior Court in order to implement the Restructuring Plan. Among other things, the Initial Order provided for the appointment of PwC as Monitor in the CCAA proceedings.

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

As part of its Restructuring Plan and further to obtaining the Initial Order, the Company, on July 10, 2020, sent notices to terminate leases for 82 of its stores in Canada and all 42 stores in the United States. On July 30, 2020, the Company sent notices to terminate leases for an additional 82 of its stores in Canada and continues to negotiate with landlords for the remaining 18 stores. The lease terminations will take effect on August 9, 2020 for the initial 82 stores and August 29, 2020, for the additional 82 stores.

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

Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us and may pose risks and challenges, as discussed in the "Risk Factors" section under "Item 1A. Risk Factors" of this Form 10-Q and in our Form 10-K filed with the SEC and on SEDAR and available at www.sec.gov and www.sedar.com, respectively.

How We Assess Our Performance

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

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

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

Measuring the change in period-over-period comparable sales allows us to evaluate how our business is performing. Various factors affect comparable sales, including:

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

Non-Comparable Sales. Non-comparable sales include sales from stores prior to the beginning of their thirteenth fiscal month of operation.

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

Selling, General and Administration Expenses. Selling, general and administration expenses consist of store operating expenses and other general and administration expenses, including store impairments. Store operating expenses consist of all store expenses excluding certain occupancy related costs (which are included in costs of sales). General and administration costs consist of salaries and other payroll costs, travel, professional fees, stock compensation, marketing expenses, information technology, depreciation of property and equipment, amortization of intangible assets, amortization of right-of-use assets, impairment and other operating costs.

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

We present Adjusted selling, general and administration expenses as a supplemental measure because we believe it facilitates a comparative assessment of our selling, general and administration expenses under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure on page 20 of this Quarterly Report on Form 10-Q.

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

We present Adjusted results from operating activities as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure on page 20 of this Quarterly Report on Form 10-Q.

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

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

Adjusted EBITDA. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. Specifically, Adjusted EBITDA allows for an assessment of our operating performance and our ability to service or incur indebtedness without the effect of non-cash charges, such as depreciation, amortization, finance costs, non-cash compensation expense, loss on disposal of property and equipment, impairment of property and equipment and right-of-use assets, and certain non-recurring expenses. This measure also functions as a benchmark to evaluate our operating performance. It is reconciled to its nearest IFRS measure on page 20 of this Quarterly Report on Form 10-Q.

Selected Operating and Financial Highlights

Results of Operations

During the first quarter of Fiscal 2020, sales declined by \$12.1 million or 27.3% over the prior year quarter to \$32.2 million. Net loss increased by \$42.5 million to \$45.8 million for the quarter from a net loss of \$3.3 million for the prior year quarter. Adjusted EBITDA in the first quarter of Fiscal 2020 was negative \$0.1 million compared to \$3.3 million in the prior year quarter.

On March 17, 2020, the Company closed all of its stores in North America, as subsequently mandated by the governments in both Canada and the United States, to protect its employees, customers and communities in light of the COVID-19 pandemic. The Company temporarily furloughed all of its store related employees and moved substantially all remaining non-essential employees to a four-day work week to reduce expenses.

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

	For the three months ended	
	May 2, 2020	May 4, 2019
Consolidated statement of loss data:		
Sales	\$ 32,242	\$ 44,265
Cost of sales	17,569	17,929
Gross profit	14,673	26,336
Selling, general and administration expenses	59,034	28,020
Results from operating activities	(44,361)	(1,684)
Finance costs	1,667	1,827
Finance income	(240)	(191)
Net loss	\$ (45,788)	\$ (3,320)
Percentage of sales:		
Sales	100.0%	100.0%
Cost of sales	54.5%	40.5%
Gross profit	45.5%	59.5%
Selling, general and administration expenses	183.1%	63.3%
Results from operating activities	(137.6%)	(3.8%)
Finance costs	5.2%	4.1%
Finance income	(0.7%)	(0.4%)
Net loss	(142.0%)	(7.5%)
Other financial and operations data:		
Adjusted EBITDA ⁽¹⁾	\$ (94)	\$ 3,269
Adjusted EBITDA as a percentage of sales	(0.3%)	7.4%
Adjusted SG&A ⁽¹⁾	\$ 19,074	\$ 28,020
Adjusted operating loss ⁽¹⁾	(4,401)	(1,684)
Adjusted net loss ⁽¹⁾	(5,828)	(3,320)

(1) For a reconciliation of Adjusted EBITDA to net income see "Non-IFRS Financial Measures" below.

Non-IFRS Financial Measures

Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA, are not a presentation made in accordance with IFRS, and the use of the terms Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA, may differ from similar measures reported by other companies. We believe that Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA provide investors with useful information with respect to our historical operations. Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA are not measurements of our financial performance under IFRS and should not be considered in isolation or as an alternative to net income, net cash provided by operating, investing or financing activities or any other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with IFRS. We understand that although Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted

EBITDA are frequently used by securities analysts, lenders and others in their evaluation of companies, they have limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under IFRS. Some of these limitations are:

- Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA do not reflect the cash requirements necessary to fund capital expenditures; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

Because of these limitations, Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA should not be considered as discretionary cash available to us to reinvest in the growth of our business or as a measure of cash that will be available to us to meet our obligations.

The following tables present reconciliations of Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA to our Net loss determined in accordance with IFRS:

Reconciliation of Adjusted selling, general and administration expenses

	For the three months ended	
	May 2, 2020	May 4, 2019
Selling, general and administration expenses	\$ 59,034	\$ 28,020
Impairment of property and equipment and right-of-use assets	(39,960)	—
Adjusted selling, general and administration expenses	\$ 19,074	\$ 28,020

Reconciliation of Adjusted results from operating activities

	For the three months ended	
	May 2, 2020	May 4, 2019
Results from operating activities	\$ (44,361)	\$ (1,684)
Impairment of property and equipment and right-of-use assets	39,960	—
Adjusted results from operating activities	\$ (4,401)	\$ (1,684)

Reconciliation of Net loss to Adjusted EBITDA

	For the three months ended	
	May 2, 2020	May 4, 2019
Net loss	\$ (45,788)	\$ (3,320)
Finance costs	1,667	1,827
Finance income	(240)	(191)
Depreciation and amortization	3,994	4,826
EBITDA	\$ (40,367)	\$ 3,142
Additional adjustments :		
Stock-based compensation expense	313	127
Impairment of property and equipment and right-of-use assets	39,960	—
Adjusted EBITDA	\$ (94)	\$ 3,269

Reconciliation of reported results to Adjusted net loss

	For the three months ended	
	May 2, 2020	May 4, 2019
Net loss	\$ (45,788)	\$ (3,320)
Impairment of property and equipment and right-of-use assets	39,960	—
Adjusted net loss	\$ (5,828)	\$ (3,320)

Reconciliation of fully diluted loss per common share to adjusted fully diluted loss per common share

	For the three months ended	
	May 2, 2020	May 4, 2019
Weighted average number of shares outstanding, basic and fully diluted	26,088,127	26,019,594
Adjusted weighted average number of shares outstanding, fully diluted	26,088,127	26,019,594
Net loss	\$ (45,788)	\$ (3,320)
Adjusted net loss	\$ (5,828)	\$ (3,320)
Net loss per share, fully diluted	\$ (1.76)	\$ (0.13)
Adjusted net loss per share, fully diluted	\$ (0.22)	\$ (0.13)

Three Months Ended May 2, 2020 compared to Three Months Ended May 4, 2019

Sales. Sales for the three months ended May 2, 2020 decreased 27.3%, or \$12.1 million, to \$32.2 million from \$44.3 million in the prior year quarter. On March 17, 2020, we shuttered all of our stores resulting in a decline in retail sales and a migration to our online and wholesale channels. Sales from our e-commerce and wholesale channels increased \$9.3 million or 120.7% to \$17.0 million, resulting primarily from the closure of our stores along with naturally occurring organic growth in these channels. The decline in retail sales of \$21.5 million resulted from the temporary closure of all of our stores during the period March 17, 2020 to May 2, 2020. In the quarter ended May 2, 2020, e-commerce and wholesale sales represented 52.9% of total sales as opposed to 17.5% in the prior year quarter.

Gross Profit. Gross profit of \$14.7 million for the three months ended May 2, 2020 decreased by \$11.7 million or 44.3% from the prior year quarter due primarily to a decline in sales during the period. Gross profit as a percentage of sales declined to 45.6% for the three-month period ended May 2, 2020 from 59.5% in the prior year quarter. Gross profit was also impacted by the significant increase in e-commerce sales during the period ended May 2, 2020 and resulted in an increase of \$2.1 million in delivery and distribution costs and the shift from loose-leaf tea sold in our retail stores to pre-packed tea assortment sold in our e-commerce and wholesale channels. Further impacting our margins in the quarter was an increase in inventory obsolescence of \$0.6 million reflecting mainly the spring merchandise stranded in our closed retail stores.

Selling, General and Administration Expenses. Selling, general and administration expenses (“SG&A”) increased by \$31.0 million or 110.6%, to \$59.0 million in the three months ended May 2, 2020 from the prior year quarter. Excluding the impact of the impairment of property and equipment and right-of-use assets for the three-month period ended May 2, 2020 which amounted to \$40.0 million, Adjusted SG&A decreased by \$8.1 million for the three months ended May 2, 2020. This is explained by the temporary closure of our stores effective March 17, 2020 and the corresponding impact on wages, salaries and employee benefits amounting to \$6.8 million and \$1.0 million reduction in amortization expense due to a lower right-of-use asset value at the beginning of the period. As a percentage of sales, Adjusted SG&A decreased to 59.2% from 63.3% due to lower selling expenses resulting from the temporary closure of our stores effective March 17, 2020.

Results from Operating Activities. Loss from operating activities was \$44.4 million as compared to a loss of \$1.7 million in the prior year quarter. Excluding the impact of the impairment of property and equipment and right-of-use assets for the three month period ended May 2, 2020 amounting to \$40.0 million, Adjusted results from operating activities was a loss of \$4.4 million compared to a loss of \$1.7 million in the prior year quarter, a difference of \$2.7 million. The decrease is explained by the reduction of gross profit of \$11.7 million partially offset by a reduction in wages, salaries and employee benefits amounting to \$6.8 million and \$1.0 million reduction in amortization expense due to a lower right-of-use asset value at the beginning of the period, as previously noted.

Finance Costs. Finance costs amounted to \$1.7 million in the three months ended May 2, 2020, an increase of \$0.1 million from the prior year quarter. The interest expense relates to lease liabilities and has increased slightly from prior year quarter.

Finance Income. Finance income of \$0.2 million is derived mainly from interest on cash on hand and has increased slightly from prior year quarter.

EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was negative \$40.4 million in the quarter ended May 2, 2020 compared to \$3.1 million in the prior year quarter, representing a decrease of \$43.5 million over the prior year quarter. Adjusted EBITDA for the quarter ended May 2, 2020, which excludes the impact of stock-based compensation expense and the impairment of property and equipment and right-of-use assets, amounted to negative \$0.1 million compared to \$3.3 million in the prior year quarter. The decline in Adjusted EBITDA is an outcome of the decline in sales and gross profit that was partially offset by a reduction in SG&A.

Net Loss. Net loss was \$45.8 million in the quarter ended May 2, 2020 compared to a net loss of \$3.3 million in the prior year quarter. Adjusted net loss, which excludes the impact from the impairment of property and equipment and right-of-use assets was \$5.8 million compared to \$3.3 million in the prior year quarter.

Fully diluted loss per common share. Fully diluted loss per common share was negative \$1.76 compared to negative \$0.13 in the first quarter of Fiscal 2019. Adjusted fully diluted loss per common share, which is adjusted net loss on a fully diluted weighted average shares outstanding basis, was negative \$0.22 per share compared to negative \$0.13 per share.

Liquidity and Capital Resources

As at May 2, 2020 we had \$39.3 million of cash primarily held by major Canadian financial institutions. Total current assets less the sum of Trade and other payables and Deferred revenue was \$48.3 million and \$52.9 million, for the periods ended May 2, 2020 and February 1, 2020, respectively.

Our primary source of liquidity is cash on hand. Our primary cash needs are to finance working capital and capital expenditures in connection with enhancing the functions and features of our online store. Our working capital requirements are for the purchase of inventory and payment of payroll and other operating costs. Furthermore, in light of implementing the Restructuring Plan, the Company expects to use cash on hand to pay for professional fees and dividend resulting from the plan of arrangement that will be presented to creditors. Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. We funded our capital expenditures and working capital requirements from cash on hand and net cash provided by our operating activities.

Cash Flow

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

	For the three months ended	
	May 2, 2020	May 4, 2019
Cash flows provided by (used in) :		
Operating activities	\$ (4,056)	\$ 360
Financing activities	(4,376)	(5,823)
Investing activities	1,437	(1,120)
Decrease in cash	\$ (6,995)	\$ (6,583)

Cash Flows (used in) from Operating Activities. Net cash used by operating activities amounted to \$4.1 million for the three months ended May 2, 2020 a decrease from net cash provided of \$0.4 million for the three months ended May 4, 2019 primarily from lower results from operations due to the closure of all our stores mid-March 2020 and partially offset by the favorable change in other non cash working capital balances.

Cash Flows Used in Financing Activities. Net cash flows used in financing activities decreased at \$4.4 million compared to \$5.8 million for the three months ended May 4, 2019 due to the non-payment of April lease.

Cash Flows From (used in) Investing Activities. Cash flows from investing activities increased by \$2.6 million to \$1.4 million for the three months ended May 2, 2020. The increase is primarily due to the repayment of the loan from a Company controlled by an executive employee partially offset by the capital expenditures. Capital expenditures decreased by \$0.5 million, to \$0.6 million for the three months ended May 2, 2020, from \$1.1 million for the three months ended May 4, 2019. This decrease was primarily due to lower investment in both leasehold improvements as well as software.

Off-Balance Sheet Arrangements

We have no off-balance sheet obligations.

Contractual Obligations and Commitments

There have been no significant changes to our contractual obligations as disclosed in our consolidated financial statements for the fiscal year ended February 1, 2020, other than those which occur in the normal course of business and the specific impact of the Restructuring Plan, which is currently unknown. Given the nature of our Restructuring Plan, we do anticipate that there will be significant changes to previously reported contractual obligations, which we will disclose when reasonably estimable.

Critical Accounting Policies and Estimates

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

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chairman and Interim Chief Executive Officer and Chief Financial Officer and Chief Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of May 2, 2020. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on assessment of our disclosure controls and procedures, as a result of the identification of a material weakness in connection with our non-financial asset impairment testing processes identified in the close process for the fourth quarter of Fiscal 2019, as well as the material weakness identified in the Company’s financial statement close process for the quarter ended November 2, 2019 related to accounting errors identified in the assessment of impairment indicators upon the adoption of IFRS 16, *Leases*, as previously described in Part I, Item 1A “Risk Factors”, our management concluded that our disclosure controls and procedures were not effective as of May 2, 2020.

Changes in Internal Control over Financial Reporting

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

With the exception of the material weaknesses identified there were no other changes in our internal control over financial reporting during our fiscal quarter ended May 2, 2020 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.