

## 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", "approximately", "intends", "plans", "estimates" or "anticipates" or, in each case, their negatives or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our strategy of transitioning to e-commerce and wholesale sales, future sales through our e-commerce and wholesale channels, our results of operations, financial condition, liquidity and prospects, and the impact of the COVID-19 pandemic and other geopolitical conditions on the global macroeconomic environment.

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 April 29, 2022.

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:

- Our ability to successfully pivot our business to a digital-first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees who are instrumental to growing our online and wholesale channel businesses;
- The duration and impact of the global COVID-19 pandemic, which has disrupted the Company's business and has adversely affected the Company's financial condition and operating results, and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners;
- Our ability to maintain and enhance our brand image;
- Significant competition within our industry;
- Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, in light of supply chain disruptions due to the ongoing COVID-19 pandemic and the war in Ukraine;
- Actual or attempted breaches of data security; and
- The seasonality of our business.

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. These statements are based upon information available to 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 2022” are to the Company’s fiscal year ending January 28, 2023. All references to “Fiscal 2021” are to the Company’s fiscal year ended January 29, 2022.

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 year ended January 29, 2022 and the year ending January 28, 2023 both cover a 52-week period.

## Overview

The Company offers a selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories, and gifts through its e-commerce platform at [www.davidstea.com](http://www.davidstea.com) and the Amazon Marketplace, its wholesale customers which include over 3,500 grocery stores and pharmacies, and 18 Company-owned stores across Canada. The Company offers primarily proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea. With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company launches seasonally driven “collections” with a mission of making tea fun and accessible to all.

Sales fluctuate from quarter to quarter. Sales are traditionally highest in the fourth fiscal quarter due to the year-end holiday season and tend to be lowest in the second and third fiscal quarters because of lower customer engagement during the summer months.

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

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

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

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

At a creditors’ meeting held on June 11, 2021, the Company’s Plan of Arrangement was approved by the requisite majorities of creditors of DAVIDsTEA Inc. and its subsidiary, DAVIDsTEA (USA) Inc., respectively, in accordance with the CCAA, that is, a simple majority of creditors of DAVIDsTEA Inc. and of DAVIDsTEA (USA) Inc., voting separately, whose claims were affected by the Plan of Arrangement, representing in each case at least two-thirds in dollar value of all such claims duly filed in accordance with the CCAA proceedings.

The approved Plan of Arrangement required that DAVIDsTEA Inc. distribute an aggregate amount of \$17.6 million to its creditors and those of DAVIDsTEA (USA) Inc. in full and final settlement of all claims affected by the Plan of Arrangement on June 18, 2021.

On September 9, 2021, the Monitor filed a Certificate of Termination with the Québec Superior Court in accordance with paragraph 24 of the Sanction Order and declared the CCAA proceedings were terminated without further act or formality.

The Company emerged from the Restructuring Plan as a smaller and more invigorated organization, with a renewed sense of purpose and confidence as we continue building a high-performing, future-ready winning culture, driven by purpose. We were founded on a spirit of innovation and of embracing unconventional ideas with a desire to create a North American experience around tea. We removed the boundaries that kept tea in the cupboards of only those in-the-know. We experimented and took risks, attracted

passionate employees and as customers became friends, we embraced our brand purpose; a desire to share “positivitea” with all, and use our platform to do good - for business and for the lives of all with whom we interact.

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

### **Factors Affecting Our Performance**

We believe that our performance and future success depend on several factors that present significant opportunities for us and may pose risks and challenges, as discussed in the “Risk Factors” section under “Item 1A. Risk Factors” in our Form 10-K filed with the SEC and on SEDAR and available at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://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 online stores, retail stores, and from our wholesale distribution channel. Our business is seasonal and, as a result, our sales fluctuate from quarter to quarter. Sales are traditionally highest in the fourth fiscal quarter, which includes the holiday sales period, and tend to be lowest in the second and third fiscal quarters because of lower customer engagement in both our online store and physical locations in the summer months.

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

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

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

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

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

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

*Results from Operating Activities.* Results from operating activities consist of our gross profit less our selling, general and administration expenses, and in respect of Fiscal 2021, Restructuring Plan activities, net.

*Finance Costs.* Finance costs consist of interest expense on lease liabilities.

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

## Selected Operating and Financial Highlights

### Results of Operations

Sales during the second quarter of Fiscal 2022 decreased by \$3.5 million or 18.7% to \$15.2 million from the prior year quarter due mainly to a decrease in e-commerce sales of \$6.5 million, partially offset by an increase in sales of \$3.0 million from brick-and-mortar and wholesale.

Sales of \$35.7 million in the year-to-date period ended July 30, 2022 decreased by \$6.3 million from the prior year period or 15.0% to \$42.0 million due to a decrease in e-commerce sales of \$11.9 million, partially offset by an increase in sales of \$5.6 million from brick-and-mortar and wholesale.

The Company recorded a Net loss of \$4.8 million in the second quarter compared to a Net income of \$75.5 million in the prior year quarter. Excluding adjustments noted herein, Adjusted net loss<sup>(1)</sup> for the second quarter was \$3.5 million compared to an Adjusted net loss<sup>(1)</sup> of \$2.0 million in the prior year quarter. Adjusted EBITDA<sup>(1)</sup> in the second quarter of Fiscal 2022 was a loss of \$2.1 million compared to a loss of \$0.6 million in the prior year quarter.

The Company recorded a Net Loss of \$6.8 million in the year-to-date period compared to a Net income of \$78.7 million in the prior year period. Excluding adjustments noted herein, Adjusted net loss<sup>(1)</sup> for the year-to-date period was \$4.7 million compared to an Adjusted net loss<sup>(1)</sup> of \$0.6 million in the prior year period. Adjusted EBITDA<sup>(1)</sup> in the year-to-date period of Fiscal 2022 was a loss of \$2.0 million compared to \$1.9 million in the prior year period.

Sales and operating results have been materially impacted by changes in the overall economic condition in North America and the impact these conditions have had on consumer confidence and discretionary spending. Continuing inflationary pressures has resulted in an increase in our cost of goods, transportation, and labour costs. Fears of a looming recession, increases in interest rates, uncertainty surrounding the COVID-19 pandemic, continuing supply chain disruptions, increased input costs, and shortage of technical and skilled labor are expected to have a continuing significant impact on our economic condition that could materially affect our financial condition, results of operations and cash flows.

As COVID-19 restrictions loosened in Fiscal 2022, consumer spending shifted out-of-home and we saw a shift away from online to brick-and-mortar. We believe this decline in revenue is temporary as we continue to build on the wellness trend for healthier beverages with our target audiences.

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

|                                                   | For the three-months ended |                  | For the six-months ended |                  |
|---------------------------------------------------|----------------------------|------------------|--------------------------|------------------|
|                                                   | July 30,<br>2022           | July 31,<br>2021 | July 30,<br>2022         | July 31,<br>2021 |
| <b>Consolidated statement of operations data:</b> |                            |                  |                          |                  |
| Sales                                             | \$ 15,225                  | \$ 18,743        | \$ 35,660                | \$ 41,992        |
| Cost of sales                                     | 8,751                      | 10,748           | 20,222                   | 23,229           |
| Gross profit                                      | 6,474                      | 7,995            | 15,438                   | 18,763           |
| Selling, general and administration expenses      | 11,219                     | 9,085            | 22,025                   | 18,279           |
| Restructuring plan activities, net                | —                          | (75,557)         | —                        | (77,159)         |
| <b>Results from operating activities</b>          | <b>(4,745)</b>             | <b>74,467</b>    | <b>(6,587)</b>           | <b>77,643</b>    |
| Finance costs                                     | 167                        | 23               | 338                      | 33               |
| Finance income                                    | (77)                       | (34)             | (116)                    | (89)             |
| <b>Net income (loss) before income taxes</b>      | <b>(4,835)</b>             | <b>74,477</b>    | <b>(6,809)</b>           | <b>77,698</b>    |
| Recovery of income tax                            | —                          | (1,000)          | —                        | (1,000)          |
| <b>Net (loss) income</b>                          | <b>\$ (4,835)</b>          | <b>\$ 75,478</b> | <b>\$ (6,809)</b>        | <b>\$ 78,699</b> |
| <b>Percentage of sales:</b>                       |                            |                  |                          |                  |
| Sales                                             | 100.0%                     | 100.0%           | 100.0%                   | 100.0%           |
| Cost of sales                                     | 57.5%                      | 57.3%            | 56.7%                    | 55.3%            |
| Gross profit                                      | 42.5%                      | 42.7%            | 43.3%                    | 44.7%            |
| Selling, general and administration expenses      | 73.7%                      | 48.5%            | 61.8%                    | 43.5%            |
| Net (loss) income                                 | (31.8)%                    | 402.7%           | (19.1)%                  | 187.4%           |
| <b>Other financial and operations data:</b>       |                            |                  |                          |                  |
| Adjusted EBITDA <sup>(1)</sup>                    | \$ (2,128)                 | \$ (641)         | \$ (2,039)               | \$ 1,864         |
| Adjusted EBITDA as a percentage of sales          | (14.0)%                    | (3.4)%           | (5.7)%                   | 4.4%             |
| Adjusted SG&A <sup>(1)</sup>                      | \$ 9,894                   | \$ 10,025        | \$ 19,945                | \$ 19,421        |
| Adjusted net loss <sup>(1)</sup>                  | \$ (3,510)                 | \$ (2,019)       | \$ (4,729)               | \$ (602)         |

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

## Non-IFRS Financial Measures and Ratios

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

We present the following non-IFRS financial measures;

- (a) "Adjusted selling, general and administration expenses" is presented 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 are non-recurring by nature or vary from period to period.
- (b) "Adjusted results from operating activities" is presented as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that are non-recurring by nature or vary from period to period.
- (c) "Adjusted net (loss) income" is presented as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that are non-recurring by nature or vary from period to period.
- (d) "Adjusted EBITDA" is presented as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that are non-recurring by nature or 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, stock-based compensation and certain non-recurring expenses. This measure also functions as a benchmark to evaluate our operating performance.
- (e) Adjusted EBITDA as a percentage of sales is calculated by dividing adjusted EBITDA as defined above by the sales figures for a period.

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

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

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

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

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

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

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

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

|                                                              | For the three-months ended |                  | For the six-months ended |                  |
|--------------------------------------------------------------|----------------------------|------------------|--------------------------|------------------|
|                                                              | July 30,<br>2022           | July 31,<br>2021 | July 30,<br>2022         | July 31,<br>2021 |
| <b>Selling, general and administration expenses</b>          | <b>\$ 11,219</b>           | <b>\$ 9,085</b>  | <b>\$ 22,025</b>         | <b>\$ 18,279</b> |
| Software implementation and configuration costs (a)          | (1,325)                    | (1,592)          | (2,080)                  | (2,454)          |
| Government emergency wage and rent subsidy (b)               | —                          | 2,532            | —                        | 3,596            |
| <b>Adjusted selling, general and administration expenses</b> | <b>\$ 9,894</b>            | <b>\$ 10,025</b> | <b>\$ 19,945</b>         | <b>\$ 19,421</b> |

(a) Represents costs related to implementation and configuration of software solutions.

(b) Represents the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

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

|                                                     | For the three-months ended |                   | For the six-months ended |                  |
|-----------------------------------------------------|----------------------------|-------------------|--------------------------|------------------|
|                                                     | July 30,<br>2022           | July 31,<br>2021  | July 30,<br>2022         | July 31,<br>2021 |
| <b>Results from operating activities</b>            | <b>\$ (4,745)</b>          | <b>\$ 74,467</b>  | <b>\$ (6,587)</b>        | <b>\$ 77,643</b> |
| Software implementation and configuration costs (a) | 1,325                      | 1,592             | 2,080                    | 2,454            |
| Restructuring plan activities, net (b)              | —                          | (75,557)          | —                        | (77,159)         |
| Government emergency wage and rent subsidy (c)      | —                          | (2,532)           | —                        | (3,596)          |
| <b>Adjusted results from operating activities</b>   | <b>\$ (3,420)</b>          | <b>\$ (2,030)</b> | <b>\$ (4,507)</b>        | <b>\$ (657)</b>  |

(a) Represents costs related to implementation and configuration of software solutions.

(b) Represents the net gain related to the Restructuring Plan activities which were completed in Fiscal 2021.

(c) Represents the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

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

|                                                     | For the three-months ended |                   | For the six-months ended |                  |
|-----------------------------------------------------|----------------------------|-------------------|--------------------------|------------------|
|                                                     | July 30,<br>2022           | July 31,<br>2021  | July 30,<br>2022         | July 31,<br>2021 |
| <b>Net (loss) income</b>                            | <b>\$ (4,835)</b>          | <b>\$ 75,478</b>  | <b>\$ (6,809)</b>        | <b>\$ 78,699</b> |
| Software implementation and configuration costs (a) | 1,325                      | 1,592             | 2,080                    | 2,454            |
| Restructuring plan activities, net (b)              | —                          | (75,557)          | —                        | (77,159)         |
| Government emergency wage and rent subsidy (c)      | —                          | (2,532)           | —                        | (3,596)          |
| Recovery of income taxes (d)                        | —                          | (1,000)           | —                        | (1,000)          |
| <b>Adjusted net loss</b>                            | <b>\$ (3,510)</b>          | <b>\$ (2,019)</b> | <b>\$ (4,729)</b>        | <b>\$ (602)</b>  |

(a) Represents costs related to implementation and configuration of software solutions.

(b) Represents the net gain related to the Restructuring Plan activities which were completed in Fiscal 2021.

(c) Represents the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

(d) Represents the reversal of previously accrued estimate of income tax liabilities that was compromised by the Restructuring Plan activities

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

|                                                                       | For the three-months ended |                  | For the six-months ended |                  |
|-----------------------------------------------------------------------|----------------------------|------------------|--------------------------|------------------|
|                                                                       | July 30,<br>2022           | July 31,<br>2021 | July 30,<br>2022         | July 31,<br>2021 |
| Weighted average number of shares outstanding, fully diluted          | 26,487,933                 | 26,299,094       | 26,456,830               | 26,270,284       |
| Adjusted weighted average number of shares outstanding, fully diluted | 26,487,933                 | 27,455,005       | 26,456,830               | 27,422,066       |
| Net (loss) income                                                     | \$ (4,835)                 | \$ 75,478        | \$ (6,809)               | \$ 78,699        |
| Adjusted net (loss)                                                   | \$ (3,510)                 | \$ (2,019)       | \$ (4,729)               | \$ (602)         |
| Net (loss) earnings per share, fully diluted                          | \$ (0.18)                  | \$ 2.75          | \$ (0.26)                | \$ 2.87          |
| Adjusted net (loss) per share, fully diluted                          | \$ (0.13)                  | \$ (0.07)        | \$ (0.18)                | \$ (0.02)        |

*Reconciliation of Net (loss) income to Adjusted EBITDA*

|                                                     | For the three-months ended |                  | For the six-months ended |                  |
|-----------------------------------------------------|----------------------------|------------------|--------------------------|------------------|
|                                                     | July 30,<br>2022           | July 31,<br>2021 | July 30,<br>2022         | July 31,<br>2021 |
| Net (loss) income                                   | \$ (4,835)                 | \$ 75,478        | \$ (6,809)               | \$ 78,699        |
| Finance costs                                       | 167                        | 23               | 338                      | 33               |
| Finance income                                      | (77)                       | (34)             | (116)                    | (89)             |
| Depreciation and amortization                       | 894                        | 1,026            | 1,760                    | 1,976            |
| Recovery of income taxes                            | —                          | (1,000)          | —                        | (1,000)          |
| EBITDA                                              | \$ (3,851)                 | \$ 75,493        | \$ (4,827)               | \$ 79,619        |
| Additional adjustments:                             |                            |                  |                          |                  |
| Stock-based compensation expense (a)                | 398                        | 363              | 708                      | 545              |
| Software implementation and configuration costs (b) | 1,325                      | 1,592            | 2,080                    | 2,454            |
| Restructuring plan activities, net (c)              | —                          | (75,557)         | —                        | (77,159)         |
| Government emergency wage and rent subsidy (d)      | —                          | (2,532)          | —                        | (3,596)          |
| Adjusted EBITDA                                     | \$ (2,128)                 | \$ (641)         | \$ (2,039)               | \$ 1,863         |

(a) Represents non-cash stock-based compensation expense.

(b) Represents costs related to implementation and configuration of software solutions.

(c) Represents the net gain related to the Restructuring Plan activities which were completed in Fiscal 2021.

(d) Represents the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan.

***Operating results for the three-months ended July 30, 2022 compared to the operating results for the three-months ended July 31, 2021***

**Sales.** Sales decreased 18.7%, or \$3.5 million, to \$15.2 million in the quarter ended July 30, 2022 compared to \$18.7 million in the prior year quarter. Sales in Canada of \$12.8 million, representing 84.2% of total revenues, decreased \$2.2 million or 14.7% compared to the prior year quarter. U.S. sales of \$2.4 million decreased by \$1.3 million or 35.1% compared to the prior year quarter. Our gifting and other assortment generated \$5.7 million and declined slightly compared to the prior year quarter. Sales of \$8.0 million and \$1.5 million in tea and hard goods, respectively declined by \$2.1 million and \$1.1 million from the prior year quarter, respectively. Sales from e-commerce decreased by \$6.5 million or 43.9% to \$8.3 million from \$14.8 million in the prior year quarter. Sales from our wholesale channel increased by \$1.9 million or 238% to \$2.7 million from \$0.8 million in the prior year quarter. Brick-and mortar sales for the quarter of \$4.2 million increased by \$1.1 million compared to the prior year quarter explained by an increase in same store comparable sales, in part due to more days of sales during the current year quarter due to fewer government-mandated closures related to the pandemic. E-commerce, wholesale, and brick-and-mortar sales represented 54.6%, 17.8%, 27.6% of sales, respectively compared to 79.1%, 4.3% and 16.6%, respectively in the prior year quarter.

**Gross Profit.** Gross profit of \$6.5 million for the three-months ended July 30, 2022 decreased by \$1.5 million or 19% from the prior year quarter due to a decline in sales during the period, partially offset by lower delivery and distribution costs, compared to the prior year quarter. Gross profit as a percentage of sales decreased to 42.5% for the quarter compared to 42.7% in the prior year quarter.

**Selling, General and Administration Expenses.** Selling, general and administration expenses (“SG&A”) increased by \$2.1 million or 23.1% to \$11.2 million in the quarter compared to the prior year quarter. Excluding the impact of non-recurring software implementation and configuration costs and the impact of the wage and rent subsidies received under the Canadian government COVID-19 Economic Response Plan in the prior year, Adjusted SG&A decreased by \$0.1 million or 1.0% to \$9.9 million



in the quarter due primarily to decreases in depreciation and amortization, marketing expenses and credit card fees partially offset by increases in IT ongoing expenses as we continue the transformation to an omnichannel organization. Adjusted SG&A as a percentage of sales in the quarter increased to 65.0% from 53.5% in the prior year quarter.

*Restructuring plan activities, net.* Restructuring plan activities, net was \$nil for the three-month period ended July 30, 2022 compared to a gain of \$75.6 million in the prior year period.

*Results from Operating Activities.* Loss from operating activities during the quarter was \$4.7 million compared to earnings of \$74.5 million in the prior year quarter. Excluding the impact of the Restructuring Plan, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and software implementation costs, Adjusted operating loss amounted to \$3.4 million in the quarter compared to Adjusted operating loss of \$2.0 million in the prior year quarter. The decrease in operating results is explained by the decline in Sales, lower Gross profit and the increased SG&A in pursuit of our ongoing transformation to a digital first organization.

*Finance Costs.* Finance costs amounted to \$167 thousand in the three-months ended July 30, 2022 and compares unfavorably to the prior year period due primarily to the interest expense on our right-of-use assets.

*Finance Income.* Finance income of \$77 thousand is derived mainly from interest on cash on hand and increased slightly from the prior year quarter.

*Net (loss) income.* Net loss was \$4.8 million in the quarter compared to a Net income of \$75.5 million in the prior year quarter. Adjusted net loss, which excludes the impact of Restructuring Plan activities, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and software implementation and configuration costs, and recovery of income taxes, amounted to a Net loss of \$3.5 million compared to a Net loss of \$2.0 million in the prior year quarter.

*Fully diluted (loss) earnings per common share.* Fully diluted loss per common share was (\$0.18) in the quarter compared to fully diluted earnings per common share of \$2.75 in the prior year quarter. Adjusted fully diluted loss per common share was (\$0.13) in the quarter ended July 30, 2022 compared to an Adjusted fully diluted earnings per common share of \$0.07 in the prior year quarter.

*EBITDA and Adjusted EBITDA.* EBITDA, which excludes non-cash and other items in the current and prior periods, was a loss of \$3.9 million in the quarter compared to \$75.5 million in the prior year quarter representing a decrease of \$79.4 million over the prior year quarter. Adjusted EBITDA for the quarter was a loss \$2.1 million compared to a loss of \$0.6 million for the prior year quarter. The decrease in Adjusted EBITDA of \$1.5 million is explained by the decline in Sales resulting in a lower Gross profit of \$1.5 million.

***Operating results for the six-months ended July 30, 2022 compared to the operating results for the six-months ended July 31, 2021***

*Sales.* Sales for the six-months ended July 30, 2022 decreased by 15.0% or \$6.3 million, to \$35.7 million from \$42.0 million in the prior year period. Sales in Canada of \$29.6 million, representing 82.9% of total revenues, decreased \$3.6 million or 10.8% over the prior year period. U.S. sales of \$6.1 million decreased by \$2.7 million or 30.7% over the prior year period. Our gifting assortment performed well, with sales amounting to \$12.7 million, representing an increase of \$0.6 million or 4.9% over the prior year period. Offsetting this was a decline in our tea and hard-goods assortment over the prior year. Sales from e-commerce decreased by \$11.9 million or 35.9% to \$21.2 million from \$33.1 million in the prior year period as we transition from last year's pandemic-fueled surge of online sales to serving consumers throughout our omni-channel capabilities. Sales from our wholesale channel increased by \$3.1 million or 124% to \$5.6 million from \$2.5 million in the prior year period. Brick-and-mortar sales increased by \$2.5 million or 39.1% to \$8.9 million from \$6.4 million in the prior year period. E-commerce, wholesale, and brick-and-mortar sales represented 59.4%, 15.7%, 24.9% of sales, respectively compared to 79.1%, 4.3% and 16.6%, respectively in the prior year period.

*Gross Profit.* Gross profit decreased by 18.1% or \$3.4 million, to \$15.4 million in the six-month period ended July 30, 2022 in comparison to the prior period due primarily to a decline in sales and a lower gross margin, partially offset by lower delivery and distribution costs and lower retail lease expense compared to the prior year period. Gross profit as a percentage of sales decreased to 43.3% for the six-months ended July 30, 2022, from 44.7% in the prior year period.

*Selling, General and Administration Expenses.* SG&A increased by \$3.7 million or 20.2%, to \$22.0 million in the six-months ended July 30, 2022 from the prior year period. Excluding the impact of non-recurring software implementation and configuration costs and the impact of the wage and rent subsidies received under the Canadian government COVID-19 Economic Response Plan from the prior year, Adjusted SG&A increased by \$0.5 million to \$19.9 million in the six-months ended July 30, 2022. Adjusted SG&A as a percentage of sales increased to 55.9% from 46.2% in the prior year period.

*Restructuring plan activities, net.* Restructuring plan activities, net was \$nil for the six-month period ended July 30, 2022 compared to a gain of \$77.2 million in the prior year period.

*Results from Operating Activities.* Results from operating activities during the six-month period ended July 30, 2022 were negative \$6.6 million as compared to \$77.6 million in the prior year period. Excluding the impact of the Restructuring Plan announced on July 8, 2020, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and non-recurring software implementation costs, Adjusted operating loss amounted to \$4.5 million in the six-months ended July 30, 2022, compared to an adjusted operating loss of \$0.7 million in the prior year period. The decrease in operating results is explained by a decrease in sales partially offset by a reduction in operating costs.

*Finance Costs.* Finance costs amounted to \$0.3 million in the six-months ended July 30, 2022 compared to \$33 thousand in the prior year period. The interest expense relates to the accounting for lease liabilities and increased from the prior year due to leases

*Finance Income.* Finance income of \$116 thousand is derived mainly from interest on cash on hand and increased slightly from \$89 thousand in the prior year period.

*Net (loss) income.* Net loss was \$6.8 million in the six-months ended July 30, 2022 compared to a Net income of \$78.7 million in the prior year period. Adjusted net loss, which excludes the Restructuring Plan activities, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, non-recurring software implementation costs and recovery of income taxes amounted to \$4.7 million compared to an Adjusted net loss of \$0.6 million in the prior year period. This \$4.1 million difference is driven by the same reasons mentioned above in “Results from operating activities”.

*Fully diluted (loss) earnings per common share.* Fully diluted net loss per common share was (\$0.26) in six-month period ended July 30, 2022 compared to earnings of \$2.87 in the prior year period. Adjusted fully diluted loss per common share, which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was (\$0.18) compared to an Adjusted net loss of (\$0.02) in the prior year period.

*EBITDA and Adjusted EBITDA.* EBITDA, which excludes non-cash and other items in the current and prior periods, was a negative \$4.8 million in the six-month period July 30, 2022 compared to \$79.6 million in the prior year period representing a decrease of \$84.4 million over the prior year period. Adjusted EBITDA for the six-months ended July 30, 2022, which excludes the impact of stock-based compensation expense, the Restructuring Plan activities, net, the wage and rent subsidies received from the Canadian government under the COVID-19 Economic Response Plan, and non-recurring software implementation costs was a loss of \$2.0 million compared to \$1.9 million in the prior year period. The decrease in Adjusted EBITDA of \$3.9 million is explained by a decrease in Gross profit of \$3.3 million and increases in online marketing expenses as we continue the transformation to an omnichannel organization of \$1.0 million, partially offset by less administrative staff and professional fees.

## Summary of quarterly results

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

|                                                       | Fiscal Year 2022  |                  | Fiscal Year 2021  |                  |                   |                  | Fiscal Year 2020  |                  |
|-------------------------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                                                       | Second<br>Quarter | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter |
|                                                       | \$                | \$               | \$                | \$               | \$                | \$               | \$                | \$               |
| Sales                                                 | 15,225            | 20,435           | 39,878            | 22,203           | 18,743            | 23,249           | 40,189            | 26,225           |
| Net (loss) income                                     | (4,835)           | (1,974)          | 1,291             | (1,863)          | 75,477            | 3,221            | (27,222)          | 14,467           |
| EBITDA <sup>1</sup>                                   | (3,851)           | (976)            | 2,613             | (778)            | 75,493            | 4,126            | (25,918)          | 15,295           |
| Adjusted EBITDA <sup>1</sup>                          | (2,128)           | 89               | 3,696             | (308)            | (641)             | 2,505            | 5,384             | 3,834            |
| <b>Net (loss) earnings per share:</b>                 |                   |                  |                   |                  |                   |                  |                   |                  |
| Basic                                                 | (0.18)            | (0.07)           | 0.05              | (0.07)           | 2.87              | 0.12             | (1.04)            | 0.53             |
| Fully diluted                                         | (0.18)            | (0.07)           | 0.05              | (0.07)           | 2.75              | 0.12             | (1.00)            | 0.52             |
| Adjusted fully diluted <sup>1</sup>                   | (0.13)            | (0.05)           | 0.13              | (0.01)           | (0.07)            | 0.05             | 0.15              | 0.09             |
| <b>Weighted average number of shares outstanding:</b> |                   |                  |                   |                  |                   |                  |                   |                  |
| Basic                                                 | 26,487,933        | 26,299,094       | 26,393,118        | 26,359,969       | 26,299,094        | 26,296,690       | 26,228,206        | 26,214,573       |
| Fully diluted                                         | 26,487,933        | 27,455,005       | 27,614,734        | 26,359,969       | 27,455,005        | 27,400,840       | 27,140,065        | 26,767,470       |
| Cash                                                  | 19,048            | 22,680           | 25,107            | 13,367           | 12,051            | 31,321           | 30,197            | 21,925           |
| Accounts receivable                                   | 2,497             | 3,197            | 3,209             | 4,602            | 6,986             | 6,625            | 6,157             | 7,669            |
| Prepaid expenses and deposits                         | 5,172             | 4,479            | 4,142             | 4,835            | 5,580             | 11,578           | 14,470            | 13,400           |
| Inventories                                           | 30,234            | 28,359           | 31,048            | 39,802           | 38,055            | 29,258           | 23,468            | 26,176           |
| Trade and other payables                              | 11,701            | 8,966            | 12,300            | 13,958           | 12,533            | 6,154            | 4,152             | 3,621            |

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

## Liquidity and Capital Resources

As at July 30, 2022, we had \$19.0 million of cash held by major Canadian financial institutions.

Working capital was \$37.3 million as at July 30, 2022, compared to \$43.4 million as at January 29, 2022. The decrease in working capital of \$6.1 million is explained by a decrease in current assets of \$6.6 million that was partially offset by a decrease in current liabilities of \$0.5 million.

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

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

As at July 30, 2022, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company, amounting to \$7.6 million, net of \$719 thousand of advances, which are expected to be discharged within 12 months.

## Cash Flows

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

|                            | <u>For the three-months ended</u> |                 | <u>For the six-months ended</u> |                 |
|----------------------------|-----------------------------------|-----------------|---------------------------------|-----------------|
|                            | <u>July 30,</u>                   | <u>July 31,</u> | <u>July 30,</u>                 | <u>July 31,</u> |
|                            | <u>2022</u>                       | <u>2021</u>     | <u>2022</u>                     | <u>2021</u>     |
|                            | <u>\$</u>                         | <u>\$</u>       | <u>\$</u>                       | <u>\$</u>       |
| <b>Cash flows used in:</b> |                                   |                 |                                 |                 |
| Operating activities       | (2,735)                           | (19,079)        | (4,413)                         | (17,772)        |
| Financing activities       | (769)                             | (139)           | (1,518)                         | (322)           |
| Investing activities       | (128)                             | (52)            | (128)                           | (52)            |
| <b>Decrease in cash</b>    | <b>(3,632)</b>                    | <b>(19,270)</b> | <b>(6,059)</b>                  | <b>(18,146)</b> |

### *Three-months ended July 30, 2022 compared to three-months ended July 31, 2021*

*Cash flows used in operating activities.* Net cash used in operating activities amounted to \$2.7 million for the quarter representing a change of \$16.4 million from the net cash used in operations of \$19.1 million in prior year quarter. The decrease is primarily due to decrease in Trade and other payables over the prior period, offset by an increase of the net loss, net of the gain on liabilities subject to compromise.

*Cash flows used in financing activities.* Net cash flows used in financing activities of \$769 thousand during the quarter represents an increase of \$630 thousand compared to the prior year quarter due to an increase in lease repayments.

*Cash flows used in investing activities.* Cash flows used in investing activities of \$128 thousand in the quarter is due to additions to property and equipment.

### *Six-months ended July 30, 2022 compared to six-months ended July 31, 2021*

*Cash flows used in operating activities.* Net cash used in operating activities amounted to \$4.4 million for the six-month period ended July 30, 2022, representing a change of \$13.4 million from the net cash used in operations of \$17.8 million in the prior year period. The decrease is primarily due to decrease in Trade and other payables over the prior period, offset by an increase of the net loss, net of the gain on liabilities subject to compromise.

*Cash flows used in financing activities.* Net cash flows used in financing activities of \$1.5 million during the six-month period ended July 30, 2022 represents an increase of \$1.2 million compared to the prior year period due to an increase in lease repayments.

*Cash flows used in investing activities.* Cash flows used in investing activities of \$128 thousand in the six-months ended July 30, 2022 is primarily due to additions to property and equipment.

## Off-Balance Sheet Arrangements

Other than certain purchase commitments disclosed elsewhere, we have no other off-balance sheet obligations.

## Contractual Obligations and Commitments

In the normal course of business, we enter into contractual arrangements that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for the purchase of goods and services that are expected to be received in future periods. As of July 30, 2022, the Company had financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs amounting to \$7.6 million, net of \$719 thousand of advances (January 29, 2022 - \$13.0 million, net of \$7.2 million of advances). These contractual obligations and commitments are expected to be discharged within 12 months.

## Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of financial statements requires us to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on our reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial position, changes in financial position or results of operations. Our significant accounting policies are discussed under Note 5 to our consolidated financial statements for the year ended January 29, 2022 included in our Annual Report on Form 10-K dated April 29, 2022. There have been no material changes to the critical accounting policies and estimates since January 29, 2022.

### **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 April 29, 2022.

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

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

### **Item 4. Controls and Procedures**

#### *Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive and Brand Officer and our President, Chief Financial and Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of July 30, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the assessment of our disclosure controls and procedures, our management concluded that our disclosure controls and procedures were effective as of July 30, 2022.

#### *Changes in Internal Control over Financial Reporting*

There were no significant changes in our internal control over financial reporting during the quarter ended July 30, 2022 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in our Form 10-K for our fiscal year ended January 29, 2022.

### **Item 2. Unregistered Sales of Equity Securities**

Not applicable.

### **Item 3. Defaults Upon Senior Securities**

Not applicable.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.