

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended August 3, 2019.

OR

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

For the transition period from _____ to _____

Commission file number 001-37404



DAVIDsTEA Inc.

(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of
incorporation or organization)

98-1048842

(I.R.S. Employer
Identification No.)

5430 Ferrier

Mount-Royal, Québec, Canada, H4P 1M2

(Address of principal executive offices) (zip code)

(888) 873-0006

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>	<u>Trading Symbol</u>
Common shares, no par value per share	NASDAQ Global Market	DTEA

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12-b2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Emerging growth company	<input checked="" type="checkbox"/>
		Smaller reporting company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of September 17, 2019, 26,064,286 common shares of the registrant were outstanding.



DAVIDsTEA Inc.

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DAVIDsTEA Inc. (the "Company"), a corporation incorporated under the *Canada Business Corporations Act*, qualifies as a foreign private issuer in the United States for purposes of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a foreign private issuer, the Company has chosen to file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the United States Securities and Exchange Commission ("SEC") instead of filing the reporting forms available to foreign private issuers, although the Company is not required to do so.

In this quarterly report, unless otherwise specified, all monetary amounts are in Canadian dollars, all references to "\$," "C\$," "CAD," "CND\$," "Canadian dollars" and "dollars" mean Canadian dollars and all references to "U.S. dollars," "US\$" and "USD" mean U.S. dollars.

On September 13, 2019, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was US\$1.00 = CAD\$1.3268.

Part I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

DAVIDsTEA Inc.
Incorporated under the laws of Canada
INTERIM CONSOLIDATED BALANCE SHEETS
[Unaudited and in thousands of Canadian dollars]

	As at	
	August 3, 2019 \$	February 2, 2019 \$
ASSETS		
Current		
Cash	29,725	42,074
Accounts and other receivables	[Note 11] 3,913	3,681
Inventories	[Note 5] 27,893	34,353
Income tax receivable	3,946	4,107
Prepaid expenses and deposits	9,890	8,819
Total current assets	75,367	93,034
Property and equipment	21,794	23,788
Intangible assets	6,521	5,678
Right-of-use assets	[Note 3] 68,230	—
Total assets	171,912	122,500
LIABILITIES AND EQUITY		
Current		
Trade and other payables	13,810	20,951
Deferred revenue	5,763	6,241
Current portion of provisions	[Note 3] —	3,714
Current portion of lease liabilities	[Note 3] 16,416	—
Total current liabilities	35,989	30,906
Deferred rent and lease inducements	[Note 3] —	8,698
Provisions	[Note 3] —	15,440
Non-current portion of lease liabilities	[Note 3] 78,157	—
Total liabilities	114,146	55,044
Commitments and contingencies		
Equity		
Share capital	[Note 7] 112,792	112,519
Contributed surplus	1,109	1,400
Deficit	(57,512)	(47,960)
Accumulated other comprehensive income	1,377	1,497
Total equity	57,766	67,456
Total liabilities and equity	171,912	122,500

See accompanying notes.

DAVIDsTEA Inc.
Incorporated under the laws of Canada
INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)
AND COMPREHENSIVE INCOME (LOSS)
[Unaudited and in thousands of Canadian dollars, except share and per share information]

		For the three months ended		For the six months ended	
		August 3, 2019	Aug 4, 2018	August 3, 2019	Aug 4, 2018
		\$	\$	\$	\$
Sales	[Note 12]	39,167	40,167	83,432	85,953
Cost of sales		17,362	22,824	35,291	45,918
Gross profit		21,805	17,343	48,141	40,035
Selling, general and administration expenses	[Note 9]	27,237	31,350	55,946	55,746
Results from operating activities		(5,432)	(14,007)	(7,805)	(15,711)
Finance costs		1,781	78	3,608	157
Finance income		(195)	(215)	(386)	(452)
Loss before income taxes		(7,018)	(13,870)	(11,027)	(15,416)
Provision for income tax (recovery)	[Note 8]	—	(3,872)	—	(4,216)
Net loss		(7,018)	(9,998)	(11,027)	(11,200)
Other comprehensive loss					
Items to be reclassified subsequently to income:					
Unrealized net gain on forward exchange contracts	[Note 13]	—	87	—	794
Realized net loss on forward exchange contracts reclassified to inventory		—	(578)	—	(140)
Provision for income tax recovery		—	131	—	(175)
Cumulative translation adjustment		136	(90)	(120)	(411)
Other comprehensive income (loss), net of tax		136	(450)	(120)	68
Total comprehensive loss		(6,882)	(10,448)	(11,147)	(11,132)
Net loss per share:					
Basic and fully diluted	[Note 10]	(0.27)	(0.39)	(0.42)	(0.43)
Weighted average number of shares outstanding					
Basic and fully diluted	[Note 10]	26,056,520	25,910,086	26,038,128	25,878,982

See accompanying notes.

DAVIDsTEA Inc.
Incorporated under the laws of Canada
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
[Unaudited and in thousands of Canadian dollars]

	For the three months ended		For the six months ended	
	August 3, 2019 \$	Aug 4, 2018 \$	August 3, 2019 \$	Aug 4, 2018 \$
OPERATING ACTIVITIES				
Net loss	(7,018)	(9,998)	(11,027)	(11,200)
Items not affecting cash:				
Depreciation of property and equipment	1,359	1,722	2,684	3,408
Amortization of intangible assets	456	346	855	528
Amortization of right-of-use assets	3,813	—	7,604	—
Loss on Disposal of Property and equipment	22	14	22	14
Impairment of property and equipment	—	2,560	—	2,560
Interest on lease liabilities	1,781	—	3,608	—
Deferred rent	—	46	—	(91)
Recovery for onerous contracts	—	2,068	—	1,892
Stock-based compensation expense	143	(393)	270	(98)
Amortization of financing fees	—	20	—	40
Accretion on provisions	—	58	—	117
Deferred income taxes	—	(2,302)	—	(1,346)
Sub-total	556	(5,859)	4,016	(4,176)
Net change in other non-cash working capital balances related to operations	2,527	(6,579)	(573)	(15,368)
Cash flows related to operating activities	3,083	(12,438)	3,443	(19,544)
FINANCING ACTIVITIES				
Proceed from issuance of common shares pursuant to exercise of stock options	—	74	—	74
Payment of lease liabilities	(5,799)	—	(11,622)	—
Cash flows related to financing activities	(5,799)	74	(11,622)	74
INVESTING ACTIVITIES				
Additions to property and equipment	(319)	(740)	(734)	(1,668)
Additions to intangible assets	(958)	(1,141)	(1,663)	(2,723)
Loan advance to a Company controlled by an executive employee	(1,773)	—	(1,773)	—
Cash flows related to investing activities	(3,050)	(1,881)	(4,170)	(4,391)
Decrease in cash during the period	(5,766)	(14,245)	(12,349)	(23,861)
Cash, beginning of the period	35,491	53,868	42,074	63,484
Cash, end of the period	29,725	39,623	29,725	39,623
Supplemental Information				
Cash paid for:				
Income taxes (classified as operating activity)	—	2	—	2
Cash received for:				
Interest	210	210	405	443
Income taxes (classified as operating activity)	168	—	168	—

See accompanying notes.

DAVIDsTEA Inc.
Incorporated under the laws of Canada
INTERIM CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
[Unaudited and in thousands of Canadian dollars]

	Share Capital \$	Contributed Surplus \$	Deficit \$	Accumulated Other Comprehensive Income			Total Equity \$
				Accumulated Derivative Financial Instrument Adjustment \$	Accumulated Foreign Currency Translation Adjustment \$	Accumulated Other Comprehensive Income \$	
Balance, February 3, 2018	111,692	2,642	(14,721)	(167)	1,922	1,755	101,368
Net loss for the six months ended August 4, 2018	—	—	(11,200)	—	—	—	(11,200)
Other comprehensive loss	—	—	—	479	(411)	68	68
Total comprehensive loss	—	—	(11,200)	479	(411)	68	(11,132)
Issuance of common shares	153	(79)	—	—	—	—	74
Common shares issued on vesting of restricted stock units	636	(1,305)	282	—	—	—	(387)
Stock-based compensation expense	—	(98)	—	—	—	—	(98)
Balance, August 4, 2018	112,481	1,160	(25,639)	312	1,511	1,823	89,825
Balance, February 2, 2019	112,519	1,400	(47,960)	—	1,497	1,497	67,456
Excess of onerous lease provision over right-of-use asset	—	—	1,280	—	—	—	1,280
Adjusted balance at beginning of period	112,519	1,400	(46,680)	—	1,497	1,497	68,736
Net loss for the six months ended August 3, 2019	—	—	(11,027)	—	—	—	(11,027)
Other comprehensive loss	—	—	—	—	(120)	(120)	(120)
Total comprehensive loss	—	—	(11,027)	—	(120)	(120)	(11,147)
Issuance of common shares	—	—	—	—	—	—	—
Common shares issued on vesting of restricted stock units	273	(561)	195	—	—	—	(93)
Write-down of deferred income tax assets	—	—	—	—	—	—	—
Stock-based compensation expense	—	270	—	—	—	—	270
Balance, August 3, 2019	112,792	1,109	(57,512)	—	1,377	1,377	57,766

See accompanying notes.

DAVIDsTEA Inc.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six-month periods ended August 3, 2019 and August 4, 2018 [Unaudited]
[Amounts in thousands of Canadian dollars except share and per share amounts]

1. CORPORATE INFORMATION

The unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the three and six-month periods ended August 3, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on September 17, 2019. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the NASDAQ Global Market under the symbol “DTEA”. The registered office is located at 5430, Ferrier St., Town of Mount-Royal, Quebec, Canada, H4P 1M2.

The Company is engaged in the retail and online sale of tea, tea accessories and food and beverages in Canada and the United States. The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. Sales fluctuate from quarter to quarter. Sales are traditionally higher in the fourth fiscal quarter due to the year-end holiday season, and tend to be lowest in the second and third fiscal quarter because of lower customer traffic during the summer months.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). Accordingly, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended February 2, 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. In management’s opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies and methods of computation as outlined in note 3 of the consolidated financial statements for the year ended February 2, 2019, other than as disclosed in note 3 below.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 16 – Leases

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

a) Nature of the effect of adoption of IFRS 16

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

- applying IFRS 16 exclusively to contracts that were previously identified as leases applying IAS 17 at the date of initial application;
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review of the right-of-use asset;
- excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- not separating the lease component and its associated non-lease component.

The effect of adoption of IFRS 16 as at February 3, 2019 is as follows:

	February 2, 2019 \$	IFRS 16 Adoption	February 3, 2019 \$
ASSETS			
Right-of-use assets	—	75,596	75,596
Other assets	122,500	—	122,500
Total assets	122,500	75,596	198,096
LIABILITIES			
Lease liability	—	102,168	102,168
Deferred rent and lease inducements	8,698	(8,698)	—
Provisions	19,154	(19,154)	—
Other liabilities	27,192	—	27,192
Total liabilities	55,044	74,316	129,360
EQUITY			
Deficit	(47,960)	1,280	(46,680)
Other	115,416	—	115,416
Total equity	67,456	1,280	68,736
Total liabilities and equity	122,500	75,596	198,096

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

The excess of onerous lease provision under IAS 37 over right-of-use asset at the date of transition (mainly due to the higher discount rate used to calculate the lease liability and related right-of-use asset) amounted to \$1,280 and was included in deficit.

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

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

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

b) Summary of new accounting policies

Right-of-use assets

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

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Significant judgement in determining the lease term of contracts with renewal options

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

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

- c) Amounts recognized in the statement of financial position and profit or loss

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

	Right-of use assets	Lease liability
	\$	\$
Balance, February 3, 2019	75,596	102,168
Amortization expense	(7,604)	—
Interest Expense	—	3,608
Payments	—	(11,622)
CTA	238	419
Balance, August 3, 2019	68,230	94,573
Presented as:		
Current	—	16,416
Non-Current	68,230	78,157

The Company recognizes variable lease payments of \$220 and \$430 respectively for the three and six months ended August 3, 2019.

IFRS 23 – Uncertainty over Income Tax Treatments

IFRIC 23, “Uncertainty over Income Tax Treatments” (the “Interpretation”), was issued by the IASB in June 2017. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires an entity to:

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

The adoption of this interpretation did not have a significant impact on the Company’s financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of condensed interim consolidated financial statements requires management to make estimates and assumptions using judgment that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense during the reporting period. Estimates and other judgments are continually evaluated and are based on management’s experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

In preparing these unaudited condensed interim consolidated financial statements, critical judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those referred to in note 5 of the consolidated financial statements for the year ended February 2, 2019.

5. INVENTORIES

	August 3, 2019 \$	February 2, 2019 \$
Finished goods	24,673	28,991
Goods in transit	1,352	3,262
Packaging	1,868	2,100
	<u>27,893</u>	<u>34,353</u>

6. REVOLVING FACILITY

On June 11, 2018, the Company amended its existing Credit Agreement (the “Amended Credit Agreement”). The Amended Credit Agreement provides for a two year revolving facility (“Amended Revolving Facility”) in the principal amount of \$15,000 or the equivalent in U.S. dollars, repayable at any time, two years from June 11, 2018, with no accordion feature. Borrowings under the Amended Revolving Facility may not exceed the lesser of the total commitment for the revolving facility and the borrowing base, calculated as 75% of the face value of all eligible receivables plus 50% of the estimated value of all eligible inventory, less any priority payables.

The Amended Credit Agreement subjects the Company to certain financial covenants. Without the prior written consent of the lender, the Company’s fixed charge coverage ratio may not be less than 1.10:1.00 and the Company’s leverage ratio may not exceed 3.00:1.00. In addition, the Company’s net tangible worth may not be less than \$65,000 and the Company’s minimum excess availability must not be less than \$15,000. The Amended Revolving Facility bears interest based on the Company’s adjusted leverage ratio, at the bank’s prime rate, U.S. bank rate or LIBOR plus a range from 0.5% to 2.5% per annum. A standby fee range of 0.3% to 0.5% will be paid on the daily principal amount of the unused portion of the Amended Revolving Facility.

The credit facility also contains nonfinancial covenants that, among other things and subject to certain exceptions, restrict the Company’s ability to become guarantor or endorser or otherwise become liable upon any note or other obligation other than in the normal course of business. The Company also cannot make any dividend payments.

As at August 3, 2019, the Company did not have any borrowings under the Amended Revolving Facility.

As at August 3, 2019, the Company is in breach of its fixed charge coverage ratio and certain nonfinancial covenants. BMO has temporarily agreed to forbear from exercising remedies under the Credit Agreement, however the Company cannot borrow under the facility.

The Company is in good faith discussions with BMO to install an asset based lending facility that will provide a revolving facility at commercial reasonable terms.

7. SHARE CAPITAL

Authorized

An unlimited number of Common shares.

Issued and outstanding

	August 3, 2019 \$	February 2, 2019 \$
Share Capital - 26,060,785 Common shares (February 2, 2019 - 26,011,817)	112,792	112,519

During the three and six-month periods ended August 3, 2019 no stock options were exercised for common shares [August 4, 2018 – 78,135 and 78,135 stock options for 78,135 common shares for cash proceeds of \$74 and \$74, respectively and 36,418 common shares for a non-cash settlement of \$121 and \$121 respectively].

In addition, during the three and six-month periods ended August 3, 2019, 9,603 and 48,968 common shares, respectively [August 4, 2018 – 39,752 and 69,540 common shares respectively] were issued in relation to the vesting of restricted stock units (“RSU”), resulting in an increase in share capital of \$52 and \$273, net of tax [August 4, 2018 — \$379 and \$636, net of tax, respectively] and a reduction in contributed surplus of \$122 and \$561, respectively [August 4, 2018 — \$712 and \$1,305, respectively].

Stock-based compensation

A summary of the status of the Company’s stock option plan and changes during the six-month period is presented below.

	For the six months ended			
	August 3, 2019		August 4, 2018	
	Options outstanding #	Weighted average exercise price \$	Options outstanding #	Weighted average exercise price \$
Outstanding, beginning of year	137,540	7.17	447,779	7.18
Issued	—	—	—	—
Exercised	—	—	(78,135)	3.02
Forfeitures	(28,305)	4.84	(189,979)	8.51
Outstanding, end of period	109,235	7.73	179,665	7.59
Exercisable, end of period	107,816	7.65	102,572	5.70

No stock options were granted during the three and six-month periods ended August 3, 2019 and August 4, 2018.

A summary of the status of the Company's RSU plan and changes during the six-month period is presented below.

	For the six months ended			
	August 3, 2019		August 4, 2018	
	RSUs outstanding #	Weighted average exercise price (1)\$	RSUs outstanding #	Weighted average exercise price (1)\$
Outstanding, beginning of year	270,976	5.26	289,416	9.70
Granted	804,710	1.93	476,450	3.10
Forfeitures	(32,525)	5.27	(244,296)	6.81
Vested	(71,468)	5.52	(69,540)	9.12
Vested, withheld for tax	(50,331)	5.72	(67,512)	8.97
Outstanding, end of period	<u>921,362</u>	<u>2.30</u>	<u>384,518</u>	<u>5.30</u>

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

During the six-month period ended August 3, 2019, the Company recognized a stock-based compensation expense of \$270 [August 4, 2018 — (\$98)].

As at August 3, 2019, 1,650,733 common shares remain available for issuance under the 2015 Omnibus Plan.

8. INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year.

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

	For the three months ended				For the six months ended			
	August 3, 2019		August 4, 2018		August 3, 2019		August 4, 2018	
	%	\$	%	\$	%	\$	%	\$
Income tax recovery								
statutory rate	26.8	(1,878)	26.9	(3,726)	26.8	(2,955)	26.9	(4,142)
Increase (decrease) in								
provision for income tax								
(recovery) resulting from:								
Non-deductible items	(0.6)	43	1.0	(140)	(0.7)	76	0.4	(69)
Unrecognized deferred								
income tax assets	(26.2)	1,835	—	—	(26.1)	2,879	—	—
Other	—	—	—	(6)	—	—	—	(5)
Income tax								
provision (recovery)								
effective tax rate	<u>—</u>	<u>—</u>	<u>27.9</u>	<u>(3,872)</u>	<u>—</u>	<u>—</u>	<u>27.3</u>	<u>(4,216)</u>

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

	For the three months ended		For the six months ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
	\$	\$	\$	\$
Income tax provision (recovery)				
Current	—	(1,570)	—	(2,870)
Deferred	—	(2,302)	—	(1,346)
	<u>—</u>	<u>(3,872)</u>	<u>—</u>	<u>(4,216)</u>

9. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended		For the six months ended	
	August 3, 2019	Aug 4, 2018	August 3, 2019	Aug 4, 2018
	\$	\$	\$	\$
Wages, salaries and employee benefits	14,792	15,784	31,309	32,264
Depreciation of property and equipment	1,359	1,722	2,684	3,408
Amortization of intangible assets	456	346	855	528
Amortization right-of-use asset	3,813	—	7,604	—
Loss on disposal of property and equipment	22	14	22	14
Impairment of property and equipment	—	2,560	—	2,560
Utilization of onerous contract	—	(1,354)	—	(2,694)
Recovery of provision for onerous contracts	—	2,068	—	1,892
Stock-based compensation	143	(393)	270	(98)
Executive separation cost related to salary	—	717	—	717
Strategic review and proxy contest	—	2,717	—	3,511
ERP project termination	—	—	—	2,496
Other selling, general and administration	6,652	7,169	13,202	13,644
	<u>27,237</u>	<u>31,350</u>	<u>55,946</u>	<u>55,746</u>

10. EARNINGS PER SHARE

Basic earnings per share (“EPS”) amounts are calculated by dividing the net income (loss) for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders (after adjusting for dividends) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, unless these would be anti-dilutive.

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

	For the three months ended		For the six months ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
	\$	\$	\$	\$
Net loss for basic EPS				
Weighted average number of shares outstanding:				
Basic and fully diluted	26,056,520	25,910,086	26,038,128	25,878,982
Net loss per share:				
Basic and fully diluted	(0.27)	(0.39)	(0.42)	(0.43)

As a result of the net loss during the three and six-month periods ended August 3, 2019 and August 4, 2018, the stock options and restricted stock units disclosed in Note 7 were anti-dilutive. Accordingly, diluted net loss per share for each period was the same as basic net loss per share.

11. RELATED PARTY DISCLOSURES

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

During the three and six-month periods ended August 3, 2019, the Company purchased merchandise for resale amounting to nil and \$15, respectively [August 4, 2018 - \$33 and 97, respectively], and provided net infrastructure and administrative services of \$41 and \$59, respectively [August 4, 2018 - nil and nil, respectively] from and to a company controlled by one of its executive employees, respectively.

During the three-month period ended August 3, 2019, the Company purchased a perpetual license rights to a reporting data model and associated intellectual property for \$200 [August 4, 2018 – nil] and spend \$68 [August 4, 2018 – nil] for consulting services from a related party of the principal shareholder.

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

During the second quarter of 2019, the Company entered into a secured revolving loan agreement with Oink Oink Candy Inc., doing business as “Squish”, as borrower, and Rainy Day Investments Ltd. (“RDI”), as guarantor, pursuant to which the Company agreed to lend to Squish an amount of up to \$2.0M million. The loan bears interest, payable monthly, at a rate of 1% over Bank of Montreal’s prime rate, which currently stands at 3.95% and is repayable no later than December 31, 2019. RDI has guaranteed all of Squish’s obligations to DAVIDsTEA and, as security in full for the guarantee, has given a movable hypothec (or lien) in favour of the Company on its shares of DAVIDsTEA. Squish is a company controlled by Sarah Segal, an officer of DAVIDsTEA. RDI, the principal shareholder of DAVIDsTEA, is controlled by Herschel Segal, Executive Chairman, Interim Chief Executive Officer and director of DAVIDsTEA. Ms. Segal is the daughter of Mr. Segal. The Company and Squish previously entered into a Collaboration and Shared Services Agreement pursuant to which they collaborate on and share various services and infrastructure.

Subsequent to August 3, 2019, the Company advanced an additional \$0.2 million under the loan facility and subsequently amended the agreement to amend the maximum amount of the facility to \$2.0 million repayable no later than December 31, 2019.

12. SEGMENT INFORMATION

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

The Company derives revenue from the following products:

	For the three months ended		For the six months ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
	\$	\$	\$	\$
Tea	29,306	27,589	62,730	60,819
Tea accessories	6,629	8,787	14,284	17,501
Food and beverages	3,232	3,791	6,418	7,633
	<u>39,167</u>	<u>40,167</u>	<u>83,432</u>	<u>85,953</u>

Property and equipment and intangible assets by country are as follows:

	August 3, 2019 (1)	February 2, 2019
	\$	\$
Canada	74,519	27,996
US	22,026	1,470
Total	<u>96,545</u>	<u>29,466</u>

(1) Includes Right-of-use assets of \$47,579 in Canada and \$20,651 in US.

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

	For the three months ended			For the six months ended		
	August 3, 2019			August 3, 2019		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
Sales	30,340	8,827	39,167	64,530	18,902	83,432
Cost of sales	13,925	3,437	17,362	28,039	7,252	35,291
Gross profit	16,415	5,390	21,805	36,491	11,650	48,141
Selling, general and administration expenses (allocated)	15,002	4,856	19,858	30,185	10,053	40,238
Results from operating activities before corporate expenses	1,413	534	1,947	6,306	1,597	7,903
Selling, general and administration expenses (non-allocated)			7,379			15,708
Results from operating activities			(5,432)			(7,805)
Finance costs			1,781			3,608
Finance income			(195)			(386)
Loss before income taxes			(7,018)			(11,027)

	For the three months ended			For the six months ended		
	August 3, 2018			August 3, 2018		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
Sales	31,850	8,317	40,167	68,382	17,571	85,953
Cost of sales	17,724	5,100	22,824	35,540	10,378	45,918
Gross profit	14,126	3,217	17,343	32,842	7,193	40,035
Selling, general and administration expenses (allocated)	13,538	4,236	17,774	26,922	8,394	35,316
Impairment of property and equipment	2,371	189	2,560	2,371	189	2,560
Impact of onerous contracts	1,188	(474)	714	996	(1,798)	(802)
Results from operating activities before corporate expenses	(2,971)	(734)	(3,705)	2,553	408	2,961
Selling, general and administration expenses (non-allocated)			10,302			18,672
Results from operating activities			(14,007)			(15,711)
Finance costs			78			157
Finance income			(215)			(452)
Loss before income taxes			(13,870)			(15,416)

13. FINANCIAL RISK MANAGEMENT

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

Currency Risk — Foreign Exchange Risk

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

Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net loss in the amount of \$10.

The Company's foreign exchange exposure is as follows:

	August 3, 2019 US\$	February 2, 2019 US\$
Cash	918	267
Accounts receivable	1,222	1,142
Accounts payable	1,931	3,869

The Company's U.S. subsidiary's transactions are denominated in U.S. dollars. The Company had no foreign exchange contracts outstanding as at August 3, 2019.

Market Risk — Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets with variable interest rates. The Company is exposed to cash flow risk under the Revolving Facility which bears interest at variable interest rates (Note 6). As at August 3, 2019, the Company did not have any borrowings on the Revolving Facility.

Liquidity Risk

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

As at August 3, 2019, the Company had \$29,725 in cash. In addition, the Company has a Revolving Facility of \$15,000, the full amount of which remained un-drawn as at August 3, 2019. Access to this Facility is further described in Note 6.

The Company expects to finance its working capital needs, store renovations, and investments in infrastructure through cash flows from operations and cash on hand. The Company expects that its trade and other payables will be discharged within 90 days.

Credit Risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. The Company's maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. Accounts receivable primarily consists of receivables from retail customers who pay by credit card, recoveries of credits from suppliers for returned or damaged products, receivables from other companies for sales of products, gift cards and other services and a loan advance to Squish. Credit card payments have minimal credit risk, the limited number of corporate receivables is closely monitored and the risk for the loan advance is limited as a result of the pledge of DavidsTea's shares as security.

Fair Values

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost, based on the guidance provided in IFRS 9. The fair values of derivative financial instruments have been determined by reference to forward exchange rates at the end of the reporting period and classified in Level 2 of the fair value hierarchy. There are no outstanding derivative financial instruments at August 3, 2019.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and six-month periods ended August 3, 2019 and August 4, 2018.

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," "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. 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 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, 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 for the fiscal year ended February 2, 2019, filed with the SEC on May 2, 2019.

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 manage significant changes to our Board of Directors and leadership team;
- Our efforts to expand beyond retail stores;
- Our ability to maintain our brand image;
- Significant competition within our industry;
- The effect of a decrease in customer traffic to the shopping malls, centers and street locations where our stores are located;
- The results of our transfer pricing audit;
- 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;
- The impact of weather conditions, natural disasters and manmade 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 2019” are to the Company’s fiscal year ending 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 year ended February 2, 2019 and year ending February 1, 2020 both cover a 52-week period.

Overview

We are a retailer of specialty tea, offering a differentiated selection of proprietary loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories and food and beverages, primarily through 233 company-operated DAVIDsTEA stores as of August 3, 2019, and through our online store at www.davidstea.com. We are building a brand that seeks to expand the definition of tea with innovative products that consumers can explore in an open and inviting retail environment and online. We strive to make tea a multi-sensory experience in our stores by facilitating interaction with our products through education and sampling so that our customers appreciate the compelling attributes of tea as well as the ease of preparation.

Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us and may pose risks and challenges, as discussed in the “Risk Factors” section of 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 consist primarily of sales 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 quarter because of lower customer traffic in our locations in the summer months.

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

Comparable Sales. Comparable sales refer to period-over-period comparison information for comparable stores. Our stores are added to the comparable sales calculation in the beginning of their thirteenth month of operation. As a result, data regarding comparable sales may not be comparable to similarly titled data from other retailers.

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 to our stores and online;
- the customer experience we provide in our stores and online;

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- the level of customer traffic near our locations in which we operate;
- the number of customer transactions and average ticket in our stores and online;
- the pricing of our tea, tea accessories, and food and beverages;
- our ability to obtain and distribute product efficiently;
- our opening of new stores in the vicinity of our existing stores; and
- the opening or closing of competitor stores in the vicinity of our stores.

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 and provision (recovery) for onerous contracts. 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, plant and equipment, amortization of intangible, amortization of right-of-use assets 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 21 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 22 of this Quarterly Report on Form 10-Q.

Finance Costs. Finance costs consist of cash and imputed non-cash charges related to our credit facility, accretion expense on the provisions for onerous contracts and interest expense from lease liabilities.

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

Provision for Income Tax. Provision for income tax consists of federal, provincial, state and local current and deferred income taxes.

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, deferred rent, non-cash compensation expense, costs (recovery) related to onerous contracts or contracts where we expect the costs of the obligations to exceed the economic benefit, loss on disposal of property and equipment, impairment of property and equipment, 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 22 of this Quarterly Report on Form 10-Q.

Selected Operating and Financial Highlights

Results of Operations

The Company has adopted IFRS 16 as at February 3, 2019. As fully described in Note 3 of our unaudited condensed consolidated interim financial statements for the first quarter of 2019, IFRS 16 provides a single model for leases abolishing the current distinction between finance and operating leases, with most leases being recognized on the consolidated balance sheet. The adoption of IFRS 16 had a significant impact as the Company recognized new assets and liabilities for its operating leases of retail stores. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Comparative figures for the first half of 2019 have not been restated and continue to be reported under IAS 17, Leases and Related Interpretations.

As a result, operating lease payments which were previously included in cost of sales on the consolidated statement of loss are replaced with depreciation expenses (included in selling, general and administrative expenses) from the right-of-use asset and interest expense (included under finance costs) from the lease liability. For analysis purposes only, this MD&A also shows where applicable, amounts for the first half of 2019 as if the Company continued to report under IAS 17, Leases and Related Interpretations, and did not adopt IFRS 16, other than for differences related to testing long-lived assets for impairment and accounting for onerous store leases pursuant to the guidance of IAS 37, Provisions, which could have had an impact on the EBITDA and net loss of the Company under accounting standards applicable prior to February 3, 2019.

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

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Consolidated statement of loss data:						
Sales	\$ 39,167	\$ 39,167	\$ 40,167	\$ 83,432	\$ 83,432	\$ 85,953
Cost of sales	17,362	23,161	22,824	35,291	46,913	45,918
Gross profit	21,805	16,006	17,343	48,141	36,519	40,035
Selling, general and administration expenses	27,237	23,424	31,350	55,946	48,342	55,746
Results from operating activities	(5,432)	(7,418)	(14,007)	(7,805)	(11,823)	(15,711)
Finance costs	1,781	—	78	3,608	—	157
Finance income	(195)	(195)	(215)	(386)	(386)	(452)
Loss before income taxes	(7,018)	(7,223)	(13,870)	(11,027)	(11,437)	(15,416)
Provision for income tax recovery	—	—	(3,872)	—	—	(4,216)
Net loss	\$ (7,018)	\$ (7,223)	\$ (9,998)	\$ (11,027)	\$ (11,437)	\$ (11,200)
Percentage of sales:						
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	44.3%	59.1%	56.8%	42.3%	56.2%	53.4%
Gross profit	55.7%	40.9%	43.2%	57.7%	43.8%	46.6%
Selling, general and administration expenses	69.5%	59.8%	78.0%	67.1%	57.9%	64.9%
Results from operating activities	(13.9)%	(18.9)%	(34.9)%	(9.4)%	(14.2)%	(18.3)%
Finance costs	4.5%	0.0%	0.2%	4.3%	0.0%	0.2%
Finance income	(0.5)%	(0.5)%	(0.5)%	(0.5)%	(0.5)%	(0.5)%
Loss before income taxes	(17.9)%	(18.4)%	(34.5)%	(13.2)%	(13.7)%	(17.9)%
Provision for income tax recovery	0.0%	0.0%	(9.6)%	0.0%	0.0%	(4.9)%
Net loss	(17.9)%	(18.4)%	(24.9)%	(13.2)%	(13.7)%	(13.0)%
Other financial and operations data:						
Adjusted EBITDA ⁽¹⁾	\$ 361	\$ (5,438)	\$ (5,564)	\$ 3,630	\$ (7,992)	\$ (5,964)
Adjusted EBITDA as a percentage of sales	0.9%	(13.9)%	(14.8)%	4.4%	(9.6)%	(6.9)%
Number of stores at end of period	233	233	239	233	233	239
Comparable sales decline for period ⁽²⁾	(9.4)%	(9.4)%	(14.8)%	(7.7)%	(7.7)%	(10.8)%

- (1) For a reconciliation of Adjusted EBITDA to net income see “—Non-IFRS Financial Measures” below.
- (2) Comparable sales refer to period-over-period comparison information for comparable stores. Our stores are added to the comparable sales calculation in the beginning of their thirteenth month of operation.

Non-IFRS Financial Measures

Adjusted selling, general and administration expenses, Adjusted results from operating activities, Adjusted net loss and Adjusted EBITDA, before and after adjustments for the impact of IFRS 16, 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, before and after adjustments for the impact of IFRS 16, 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, before and after adjustments for the impact of IFRS 16, provides 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, before and after adjustments for the impact of IFRS 16, 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, before and after adjustments for the impact of IFRS 16, do not reflect the cash requirements necessary to service interest or principal payments on our debt; 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, before and after adjustments for the impact of IFRS 16, 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 before and after adjustments for the impact of IFRS 16, 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 before and after adjustments for the impact of IFRS 16, to our Net loss determined in accordance with IFRS:

Reconciliation of Adjusted selling, general and administration expenses

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Selling, general and administration expenses	\$ 27,237	\$ 23,424	\$ 31,350	\$ 55,946	\$ 48,342	\$ 55,746
Executive separation costs related to salary (a)	—	—	(717)	—	—	(717)
Impairment of property and equipment (b)	—	—	(2,560)	—	—	(2,560)
Impact of onerous contracts (c)	—	—	(714)	—	—	802
Strategic review and proxy contest costs (d)	—	—	(2,717)	—	—	(3,511)
Adjusted selling, general and administration expenses	\$ 27,237	\$ 23,424	\$ 24,642	\$ 55,946	\$ 48,342	\$ 49,760

- (a) Executive separation costs represent mainly salary owed to certain former executives as part of their separation of employment from the Company.
- (b) Represent costs related to impairment of property and equipment for stores.
- (c) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
- (d) Represents costs related to the corporate strategic review process as well as costs related to the proxy contest.

Reconciliation of Adjusted results from operating activities

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Results from operating activities	\$ (5,432)	\$ (7,418)	\$ (14,007)	\$ (7,805)	\$ (11,823)	\$ (15,711)
Executive separation costs related to salary (a)	—	—	717	—	—	717
Impairment of property and equipment (b)	—	—	2,560	—	—	2,560
Impact of onerous contracts (c)	—	—	714	—	—	(802)
Strategic review and proxy contest costs (d)	—	—	2,717	—	—	3,511
Adjusted results from operating activities	\$ (5,432)	\$ (7,418)	\$ (7,299)	\$ (7,805)	\$ (11,823)	\$ (9,725)

- (a) Executive separation costs represent mainly salary owed to certain former executives as part of their separation of employment from the Company.
(b) Represent costs related to impairment of property and equipment for stores.
(c) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
(d) Represents costs related to the corporate strategic review process as well as costs related to the proxy contest.

Reconciliation of Net loss to Adjusted EBITDA

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Net loss	\$ (7,018)	\$ (7,223)	\$ (9,998)	\$ (11,027)	\$ (11,437)	\$ (11,200)
Finance costs	1,781	—	78	3,608	—	157
Finance income	(195)	(195)	(215)	(386)	(386)	(452)
Depreciation and amortization	5,628	1,815	2,068	11,143	3,539	3,936
Recovery of income tax	—	—	(3,872)	—	—	(4,216)
EBITDA	\$ 196	\$ (5,603)	\$ (11,939)	\$ 3,338	\$ (8,284)	\$ (11,775)
Additional adjustments :						
Stock-based compensation expense (a)	143	143	(393)	270	270	(98)
Executive separation costs related to salary (b)	—	—	717	—	—	717
Impairment of property and equipment (c)	—	—	2,560	—	—	2,560
Impact of onerous contracts (d)	—	—	714	—	—	(802)
Deferred rent (e)	—	—	46	—	—	(91)
Loss on disposal of property and equipment	22	22	14	22	22	14
Strategic review and proxy contest costs (f)	—	—	2,717	—	—	3,511
Adjusted EBITDA	\$ 361	\$ (5,438)	\$ (5,564)	\$ 3,630	\$ (7,992)	\$ (5,964)

- (1) Adjusted EBITDA for August 3, 2019 excluding impact of IFRS 16 assumes the Company continued to report under IAS 17, Leases and did not adopt IFRS 16. Under IFRS 16, the nature and timing of expenses related to operating leases have changed as the straight-line operating leases expenses have been replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Accordingly, for the three months and six months ended August 3, 2019, IFRS 16 had a favourable impact of approximately \$5.8 million and \$11.6 million respectively, on adjusted EBITDA as operating lease expenses have been replaced with depreciation and interest expense, which are not included in the calculation of adjusted EBITDA.

- (a) Represents non-cash stock-based compensation expense.
(b) Executive separation costs represent mainly salary owed to certain former executives as part of their separation of employment from the Company.
(c) Represent costs related to impairment of property and equipment for stores.
(d) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
(e) Represents the extent to which our annual rent expense has been above or below our cash rent payments.
(f) Represents costs related to the corporate strategic review process as well as costs related to the proxy contest.

Reconciliation of reported results to Adjusted net loss

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Net loss	\$ (7,018)	\$ (7,223)	\$ (9,998)	\$ (11,027)	\$ (11,437)	\$ (11,200)
Executive separation costs related to salary (a)	—	—	717	—	—	717
Impairment of property and equipment (b)	—	—	2,560	—	—	2,560
Impact of onerous contracts (c)	—	—	714	—	—	(802)
Strategic review and proxy contest costs (d)	—	—	2,717	—	—	3,511
Adjusted net loss	\$ (7,018)	\$ (7,223)	\$ (3,290)	\$ (11,027)	\$ (11,437)	\$ (5,214)

- (a) Executive separation costs represent mainly salary owed to certain former executives as part of their separation of employment from the Company.
(b) Represent costs related to impairment of property and equipment for stores.
(c) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
(d) Represents costs related to the corporate strategic review process as well as costs related to the proxy contest.

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

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Weighted average number of shares outstanding, fully diluted	26,056,520	26,056,520	25,910,086	26,038,128	26,038,128	25,878,982
Adjusted weighted average number of shares outstanding, fully diluted	26,056,520	26,056,520	25,910,086	26,038,128	26,038,128	25,878,982
Net loss	\$ (7,018)	\$ (7,223)	\$ (9,998)	\$ (11,027)	\$ (11,437)	\$ (11,200)
Adjusted net loss	\$ (7,018)	\$ (7,223)	\$ (3,290)	\$ (11,027)	\$ (11,437)	\$ (5,214)
Net loss per share, fully diluted	\$ (0.27)	\$ (0.28)	\$ (0.39)	\$ (0.42)	\$ (0.42)	\$ (0.43)
Adjusted net loss per share, fully diluted	\$ (0.27)	\$ (0.28)	\$ (0.13)	\$ (0.42)	\$ (0.42)	\$ (0.20)

Three Months Ended August 3, 2019 Compared to Three Months Ended August 4, 2018

Sales. Sales for the three months ended August 3, 2019 decreased 2.5%, or \$1.0 million, to \$39.2 million from \$40.2 million in the prior year quarter. Sales from our e-commerce and wholesale channels increased \$2.8 million, or by 52.8%, driven primarily by greater online adoption as well as by increased demand in our grocery distribution channel. Offsetting this was a decline in retail sales of \$3.8 million and a decline of \$2.9 million, or 9.4%, in comparable store sales.

Gross Profit. Gross profit increased by 25.7%, or \$4.5 million, to \$21.8 million for the three months ended August 3, 2019, from the prior year quarter. IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Accordingly, straight-line operating lease expense is no longer included in cost of sales in arriving at gross profit. Prior to the adoption of IFRS 16, straight-line operating lease expense amounting to \$5.8 million would have been included in arriving at gross profit. Excluding the impact of IFRS 16, gross profit decreased by \$1.3 million to \$16.0 million, representing a gross profit of 40.9% for the three months ended August 3, 2019, a decrease of 2.3% from the prior year quarter resulting from a shift in product sales mix and the deleveraging of fixed costs due to negative comparable store sales.

Selling, General and Administration Expenses. Selling, general and administration expenses (“SG&A”) decreased by 13.1%, or \$4.1 million, to \$27.2 million in the three months ended August 3, 2019 from the prior year quarter. Under IFRS 16, SG&A includes \$3.8 million of depreciation in connection with our right-of-use assets. Excluding the impact of IFRS 16, SG&A would have amounted to \$23.4 million, a decrease of \$7.9 million, or 25.3%, from the prior year quarter and as a percentage of sales would have amounted to 59.8% representing a decrease of 18.2% over the prior year quarter. Excluding the impact of IFRS 16 for the three months ended August 3, 2019 and the impact of onerous contracts, impairment of property and equipment, executive separation cost related to salary and costs related to the strategic review and proxy contest for the three months ended August 4, 2018, Adjusted SG&A decreased by \$1.2 million for the three months ended August 3, 2019. As a percentage of sales and excluding the impact of IFRS 16, Adjusted SG&A decreased to 59.8% from 61.3% due to lower selling expenses.

Results from Operating Activities. Loss from operating activities was \$5.4 million as compared to a loss of \$14.0 million in the prior year quarter. Excluding the impact of IFRS 16, loss from operating activities would have amounted to \$7.4 million, a decrease of \$6.6 million from the prior year quarter. This decrease is mainly explained by the absence of executive separation cost related to salary, impairment of property and equipment, the impact of onerous contracts, and costs related to the strategic review and proxy contest of incurred in the same period of 2018. Adjusted results from operating activities, which excludes any impact of executive separation cost related to salary, impairment of property and equipment, impact from onerous contracts, and costs related to the strategic review and proxy contest, was \$7.4 million compared to \$7.3 million in the prior year quarter.

Finance Costs. Finance costs amounted to \$1.8 million in the three months ended August 3, 2019, an increase of \$1.7 million from the prior year quarter. Finance costs under IFRS 16 includes interest expense from lease liabilities measured at the present value of lease payments to be made over the lease term. The Company recognized a lease liability of \$102.2 million on initial application of IFRS 16. Excluding the impact of IFRS 16, interest expense would have been nil in the current year quarter.

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

EBITDA and Adjusted EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was \$0.2 million in the quarter ended August 3, 2019 compared to a negative \$11.9 million in the prior year quarter. Excluding the impact of IFRS 16, EBITDA would have amounted to a negative \$5.6 million, representing an increase of \$6.3 million over the prior year quarter. Adjusted EBITDA for the quarter amounted to \$0.4 million compared to a negative \$5.6 million in the prior year quarter. Excluding the impact of IFRS 16 and stock-based compensation for the three months ended August 3, 2019 and the impact of stock-based compensation, executive separation costs related to salary, impairment of property and equipment, onerous contracts, deferred rent and costs related to the strategic review and proxy contest for the three months ended August 4, 2018, Adjusted EBITDA increased by \$0.1 million.

Net Loss. Net loss was \$7.0 million in the quarter ended August 3, 2019 compared to a net loss of \$10.0 million in the prior year quarter. Excluding the impact of IFRS 16, Net loss would have amounted to \$7.2 million, representing a decrease of \$2.8 million in net loss over the prior year quarter. Adjusted net loss, which excludes the impact from executive separation cost related to salary, impairment of property plant and equipment, impact of onerous contracts and costs related to strategic review and proxy contest, was \$7.2 million compared to \$6.3 million in the prior year quarter.

Fully diluted loss per common share. Fully diluted loss per common share was \$0.27 compared to \$0.39 in the second quarter of Fiscal 2018. Adjusted fully diluted loss per common share, which is adjusted net loss on a fully diluted weighted average shares outstanding basis, was \$0.27 per share compared to \$0.24 per share.

Six Months Ended August 3, 2019 Compared to Six Months Ended August 4, 2018

Sales. Sales for the six months ended August 3, 2019 decreased 2.9%, or \$2.5 million, to \$83.4 million from \$85.9 million in the same period in the prior year. Sales from our e-commerce and wholesale channels increased \$3.2 million, or by 28.2%, driven primarily by greater online adoption as well as by increased demand in our grocery distribution channel. Offsetting this was a decline in retail sales of \$5.7 million and a decline of \$5.8 million, or 9.7%, in comparable store sales.

Gross Profit. Gross profit increased by 20.2%, or \$8.1 million, to \$48.1 million for the three months ended August 3, 2019, from the same period in the prior year. IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Accordingly, straight-line operating lease expense is no longer included in cost of sales in arriving at gross profit. Prior to the adoption of IFRS 16, straight-line operating lease expense amounting to \$11.6 million would have been included in arriving at gross profit. Excluding the impact of IFRS 16, gross profit decreased by \$3.5 million to \$36.5 million, representing a gross profit of 43.8% for the six months ended August 3, 2019, a decrease of 2.8% compare to the six months ended August 4, 2018 driven by a shift in product sales mix and the deleveraging of fixed costs due to negative comparable store sales.

Selling, General and Administration Expenses. SG&A slightly increased by 0.4%, or \$0.2 million, to \$55.9 million in the six months ended August 3, 2019 from the same period in the prior year. Under IFRS 16, SG&A includes \$7.6 million of depreciation in connection with our right-of-use assets. Excluding the impact of IFRS 16, SG&A would have amounted to \$48.3 million, a decrease of \$7.4 million, or 13.3%, from the prior year quarter and as a percentage of sales would have amounted to 57.9%

representing a decrease of 7.0% over the prior year quarter. Excluding the impact of IFRS 16 for the six months ended August 3, 2019 and the impact of executive separation cost related to salary, impairment of property and equipment, onerous contracts and costs related to the strategic review and proxy contest for the six months ended August 4, 2018, Adjusted SG&A decreased by \$1.4 million for the six months ended August 3, 2019. As a percentage of sales, Adjusted SG&A stayed stable at 57.9%.

Results from Operating Activities. Loss from operating activities was \$7.8 million as compared to a loss of \$15.7 million in the same period in 2018. Excluding the impact of IFRS 16, loss from operating activities would have amounted to \$11.8 million, a decrease of \$3.9 million from the same period in 2018. This is mainly due to the absence of costs related to executive separation costs related to salary, impairment of property and equipment, the impact of onerous contracts and the costs related to the strategic review and proxy contest incurred in the period in 2018. Adjusted results from operating activities, which excludes any impact from executive separation costs related to salary, impairment of property and equipment, onerous contracts, and costs related to the strategic review and proxy contest, was negative \$7.8 million compared to negative \$9.7 million in the same period in the prior year.

Finance Costs. Finance costs amounted to \$3.6 million in the six months ended August 3, 2019, an increase of \$3.5 million from the same period in 2018. Finance costs under IFRS 16 includes interest expense from lease liabilities measured at the present value of lease payments to be made over the lease term. The Company recognized a lease liability of \$102.2 million on initial application of IFRS 16. Excluding the impact of IFRS 16, interest expense would have been nil in the current six-month period.

Finance Income. Finance income of \$0.4 million is derived from primarily interest on cash on hand and has decreased slightly from the same period in the prior year.

EBITDA and Adjusted EBITDA. EBITDA, which excludes non-cash and other items in the current and prior periods, was \$3.3 million in the six-month period ended August 3, 2019 compared to negative \$11.8 million in the same period in the prior year. Excluding the impact of IFRS 16, EBITDA would have amounted to a negative \$8.3 million, representing an increase of \$3.5 million over the same period in the prior year. Adjusted EBITDA for the six-month period amounted to \$3.6 million compared to a negative \$6.0 million in the same period in the prior year. Excluding the impact of IFRS 16 and stock-based compensation for the six months ended August 3, 2019 and the impact of stock-based compensation, executive separation costs related to salary, impairment of property and equipment, onerous contracts, deferred rent and costs related to the strategic review and proxy contest for the six months ended August 4, 2018, Adjusted EBITDA decreased by \$2.0 million.

Net Loss. Net loss was \$11.0 million in the six-month period ended August 3, 2019 compared to a net loss of \$11.2 million in the same period in the prior year. Excluding the impact of IFRS 16, Net loss would have amounted to \$11.4 million, representing an increase of \$0.2 million in net loss over the same period in the prior year. Adjusted net loss, which excludes the impact from executive separation costs related to salary, impairment of property and equipment, onerous contracts and costs related to strategic review and proxy contest, was \$11.4 million compared to \$5.2 million in the prior year period.

Fully diluted loss per common share. Fully diluted loss per common share in the six-month period ended August 3, 2019 was \$0.42 compared to \$0.43 in the same period of Fiscal 2018. Adjusted fully diluted loss per common share, which is adjusted net loss on a fully diluted weighted average shares outstanding basis, was \$0.42 per share compared to \$0.20 per share.

Liquidity and Capital Resources

As at August 3, 2019, we had \$29.7 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 \$55,794 and \$65,842, for the periods ended August 3, 2019 and February 2, 2019, respectively.

Our primary source of liquidity is cash on hand. Our primary cash needs are to finance working capital, investments in infrastructure and for capital expenditures related to store renovations.

Capital expenditures typically vary depending on the timing of new store openings, store renovations and infrastructure-related investments.

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

We believe that our cash position, net cash provided by our operating activities will be adequate to finance our planned capital expenditures and working capital requirements for the next twelve months.

Cash Flow

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

	For the three months ended			For the six months ended		
	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018	August 3, 2019	August 3, 2019 Excluding impact of IFRS 16 (1)	August 4, 2018
Cash flows provided by (used in) :						
Operating activities	\$ 3,083	\$ (2,716)	\$ (12,438)	\$ 3,443	\$ (8,179)	\$ (19,544)
Financing activities	(5,799)	—	74	(11,622)	—	74
Investing activities	(3,050)	(3,050)	(1,881)	(4,170)	(4,170)	(4,391)
Decrease in cash	\$ (5,767)	\$ (5,767)	\$ (14,245)	\$ (12,349)	\$ (12,349)	\$ (23,861)

Three Months Ended August 3, 2019 Compared to Three Months Ended August 4, 2018

Cash Flows Used in Operating Activities. Net cash provided by operating activities amounted to \$3.1 million for the three months ended August 3, 2019 from net cash used of \$12.4 million for the three months ended August 4, 2018. Excluding the impact of IFRS 16, net cash used in operating activities amounted to \$2.7 million, an improvement of \$9.7 million from the prior year quarter. Net change in other non-cash working capital balances related to operations improved by \$9.1 million primarily from a reduction in cash used for inventories and the collection of account receivables partially offset by a decrease in accounts payable and accrued liabilities, and an increase in prepaid.

Cash Flows Used in Financing Activities. Net cash flows used in financing activities was \$5.8 million for the three months ended August 3, 2019, compared to net cash provided of \$0.1 million for the three months ended August 4, 2018. Excluding the impact of IFRS 16, net cash used in financing activities amounted to nil.

Cash Flows Used in Investing Activities. Cash flows used in investing activities was \$3.1 million for the three months ended August 3, 2019, compared to \$1.9 million for the three months ended August 4, 2018. The increase in net cash used in investing activities relates to the loan advance made during the period, partially offset by the decrease in capital expenditures.

Six Months Ended August 3, 2019 Compared to Six Months Ended August 4, 2018

Cash Flows Used in Operating Activities. Net cash provided by operating activities amounted to \$3.4 million for the six months ended August 3, 2019 from net cash used of \$19.5 million for the six months ended August 4, 2018. Excluding the impact of IFRS 16, net cash used in operating activities amounted to \$8.2 million, an improvement of \$11.4 million from the same period in the prior year. Net change in other non-cash working capital balances related to operations improved by \$14.8 million primarily from a reduction in inventories, the collection of account receivables partially offset by a decrease in accounts payable and accrued liabilities

Cash Flows Used in Financing Activities. Net cash flows used in financing activities was \$11.6 million for the six months ended August 3, 2019, compared to net cash provided of \$0.1 million for the six months ended August 4, 2018. Excluding the impact of IFRS 16, net cash used in financing activities amounted to nil.

Cash Flows Used in Investing Activities. Cash flows used in investing activities was \$4.2 million for the six months ended August 3, 2019, compared to \$4.4 million for the six months ended August 4, 2018. The decrease in net cash used in investing activities relates to the decrease in capital expenditures partially offset by the loan advance made during the period.

Credit Facility with Bank of Montreal

On June 11, 2018, the Company amended its existing Credit Agreement (the “Amended Credit Agreement”). The Amended Credit Agreement provides for a two year revolving facility (“Amended Revolving Facility”) in the principal amount of \$15,000 or the equivalent in U.S. dollars, repayable at any time, two years from June 11, 2018, with no accordion feature. Borrowings under the Amended Revolving Facility may not exceed the lesser of the total commitment for the revolving facility and the borrowing base, calculated as 75% of the face value of all eligible receivables plus 50% of the estimated value of all eligible inventory, less any priority payables.

The Amended Credit Agreement subjects the Company to certain financial covenants. Without the prior written consent of the lender, the Company’s fixed charge coverage ratio may not be less than 1.10:1.00 and the Company’s leverage ratio may not exceed 3.00:1.00. In addition, the Company’s net tangible worth may not be less than \$65,000 and the Company’s minimum excess availability must not be less than \$15,000. The Amended Revolving Facility bears interest based on the Company’s adjusted

leverage ratio, at the bank's prime rate, U.S. bank rate or LIBOR plus a range from 0.5% to 2.5% per annum. A standby fee range of 0.3% to 0.5% will be paid on the daily principal amount of the unused portion of the Amended Revolving Facility.

The credit facility also contains nonfinancial covenants that, among other things and subject to certain exceptions, restrict the Company's ability to become guarantor or endorser or otherwise become liable upon any note or other obligation other than in the normal course of business. The Company also cannot make any dividend payments.

As at August 3, 2019, the Company did not have any borrowings under the Amended Revolving Facility.

As at August 3, 2019, the Company is in breach of its fixed charge coverage ratio and certain nonfinancial covenants. BMO has temporarily agreed to forbear from exercising remedies under the Credit Agreement, however the Company cannot borrow under the facility.

The Company is in good faith discussions with BMO to install an asset based lending facility that will provide a revolving facility at commercial reasonable terms.

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 2, 2019, other than those which occur in the normal course of business.

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 judgement 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 2, 2019 included in our Annual Report on Form 10-K dated May 2, 2019. There have been no material changes to the critical accounting policies and estimates since February 2, 2019, other than with respect to IFRS 16 as described in Note 3 to the interim consolidated financial statements.

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 May 2, 2019.

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 August 3, 2019. 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. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of August 3, 2019, our Chairman and Interim Chief Executive Officer and Chief Financial Officer and Chief Operating Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the six-month period ended August 3, 2019 that have materially affected or are reasonably likely to materially affect our internal controls 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. Except as noted above, 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 February 2, 2019.

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.

Item 6. Exhibits

(a) Exhibits:

[31.1](#) [Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[31.2](#) [Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1](#) [Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

[32.2](#) [Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DAVIDsTEA INC.

Date: September 17, 2019

By: /s/ Herschel Segal

Name: Herschel Segal

Title: Chairman and Interim Chief Executive Officer

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

I, Herschel Segal, Chairman and Interim Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2019 of DAVIDsTEA Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 17, 2019

/s/ Herschel Segal

Herschel Segal

Chairman and Interim Chief Executive Officer

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

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

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2019 of DAVIDsTEA Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 17, 2019

/s/ Frank Zitella

Frank Zitella

Chief Financial Officer and Chief Operating Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of DAVIDsTEA Inc. (the "Company") on Form 10-Q for the period ended August 3, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Herschel Segal, Chairman and Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 17, 2019

/s/ Herschel Segal

Herschel Segal

Chairman and Interim Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of DAVIDsTEA Inc. (the "Company") on Form 10-Q for the period ended August 3, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Frank Zitella, Chief Financial Officer and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 17, 2019

/s/ Frank Zitella

Frank Zitella

Chief Financial Officer and Chief Operating Officer