DAVIDsTEA Inc.

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

For the three and six-months ended July 29, 2023 and July 30, 2022

September 12, 2023

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

DAVIDsTEA Inc. ("DAVIDsTEA" or the "Company") is a corporation incorporated under the Canada Business Corporation Acts and domiciled in Canada. DAVIDsTEA's common shares trade on the TSX Venture Exchange under the symbol "DTEA". Unless the context otherwise requires, the terms "we", "our", "us", "DAVIDsTEA" and the "Company" refer to DAVIDsTEA Inc. and its wholly-owned subsidiary, DAVIDsTEA (USA) Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of DAVIDsTEA Inc. and its subsidiary should be read in conjunction with the unaudited condensed interim financial statements of DAVIDsTEA as at and for the 13 and 26 weeks ended July 29, 2023 and the audited consolidated financial statements and the notes thereto of the Company for the fiscal year ended January 28, 2023 which are available on the SEDAR+ website at www.sedarplus.caand on the Company's website at www.davidstea.com. In preparing this MD&A, we have considered all information available to us up to September 12, 2023, the date of this MD&A.

All financial information contained in this MD&A and DAVIDsTEA's unaudited interim consolidated financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), mainly with IAS 34, Interim Financial Reporting ("IAS 34"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"), except for Non-IFRS Financial Measures and Ratios described below. Therefore, certain information and disclosures have been omitted or condensed. The accounting principles are consistent with those set out in the Company's audited consolidated financial statements for the year ended January 28, 2023. All monetary amounts shown in this MD&A, unless otherwise noted, are in thousands of Canadian dollars except share and per share information.

The unaudited interim consolidated financial statements and this MD&A were reviewed by the Company's Audit Committee and were approved and authorized for issuance by our Board of Directors on September 12, 2023. The unaudited interim consolidated financial statements for the three and six-month period ended July 29, 2023 have not been audited or reviewed by the Company's auditors.
Unless otherwise indicated, all comparisons of results for the 13 weeks ended July 29, 2023 ("second quarter of fiscal 2023") are against results for the 13 weeks ended July 30, 2022 ("second quarter of fiscal 2022") and all comparisons of results for the 26 weeks ended July 29, 2023 ("year to date fiscal 2023") are against results for the 26 weeks ended July 30, 2022 ("year to date fiscal 2022").

Additional information about DAVIDsTEA is available on the Company's website at www.davidstea.com and on the SEDAR+ website at www.sedarplus.ca.

FORWARD-LOOKING STATEMENTS

This MD&A 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". These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes", "expects", "may", "will", "should", "approximately", "intends", "plans", "estimates" or "anticipates" or, in each case, their negatives or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our strategy of transitioning to e-commerce and wholesale sales, future sales through our e-commerce and wholesale channels, our results of operations, financial condition, liquidity and prospects, including the lingering impact of the COVID-19 pandemic and its variants, inflationary pressures and geopolitical tensions on the global macroeconomic environment.

Forward-looking statements made in this MD&A are based on a number of assumptions that the Company believed were reasonable on the day it made the forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations expressed in or implied by the forward-looking statements include:

- Our ability to successfully pivot our business to a digital first strategy, supported by our wholesale distribution capabilities and our retail operations, including our ability to attract and retain employees who are instrumental to growing our online and wholesale channel businesses;

- Our ability to overcome changes in economic conditions, including a prolonged recessionary environment, or changes in the rate of inflation or deflation, employment rates or currency exchange rates;
- Our ability to maintain and enhance our brand image;
- Significant competition within our industry;
- Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities, especially in light of potential global health risks similar to COVID-19 and continuing geopolitical uncertainty caused by acts of war and escalating aggression;
- Actual or attempted breaches of data security; and
- The seasonality of our business.

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. These statements are based upon information available to the Company as of the date of this MD&A, 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 MD&A 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 MD&A and we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this MD&A, 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 MD&A 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.

While we believe these opinions and expectations are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties, and assumptions about us, including the "Risk Factors and Uncertainties" detailed in our MD&A for the fiscal year ended January 28, 2023 which is available on the Company's website at www.davidstea.com and on the SEDAR+ website at www.sedarplus.ca.

OVERVIEW

The Company offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts in North-America through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, and in Canada through both its wholesale customers which include over 3,800 grocery stores and pharmacies, and 19 company-owned storefronts. The Company offers proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea. With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company launches seasonally driven "collections" with a mission of making tea fun and accessible to all.

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

HOW WE ASSESS OUR PERFORMANCE

We believe that our performance and future success depend on several factors that present significant opportunities for us and may pose risks and challenges, as discussed in the "Risk Factors and Uncertainties" section of MD&A for the fiscal year ended January 28, 2023 which is available on the Company's website at www.davidstea.com and on the SEDAR+ website at www.sedarplus.ca. The key measures we use to evaluate the performance of our business and the execution of our strategy are set forth below:

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

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

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

Factors affecting our performance include:

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

Gross Profit. Gross profit is equal to our sales less our cost of sales. Cost of sales includes product costs, freight costs, retail occupancy costs, distribution and handling costs, delivery costs and warehouse related costs including salaries and amortization of right-of-use-assets.

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

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

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

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

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

NON-IFRS FINANCIAL MEASURES AND RATIOS

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

We present the following non-IFRS financial measures;

(a) "EBITDA and Adjusted EBITDA", which is defined as earnings before interest, taxes, depreciation and amortization, is presented as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. Specifically, EBITDA and Adjusted EBITDA allows for an assessment of our operating performance and our ability to service or incur indebtedness without the effect of non-cash charges, such as depreciation, amortization, finance costs, non-cash compensation expense, loss on disposal of property and equipment, impairment of property and equipment and right-of-use assets, and certain expenses not in the normal course of operations. This measure also functions as a benchmark to evaluate our operating performance.

(b) "Adjusted net income (loss)" is presented as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period.

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

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

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

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

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

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

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

Reconciliation of Net loss to Adjusted EBITDA

	For the three-months ended				For the six-months ended			
	July 29, 2023	July 30, 2022	$ Change	% Change	July 29, 2023	July 30, 2022	$ Change	% Change
Net loss	$ **(4,252)**	$ (4,835)	583	12.1%	$ **(6,235)**	$ (6,809)	574	8.4%
Finance costs	**177**	167	10	6.0%	**359**	338	21	6.2%
Finance income	**(216)**	(77)	(139)	(180.5)%	**(496)**	(116)	(380)	(327.6)%
Depreciation and amortization	**891**	894	(3)	(0.3)%	**1,743**	1,760	(17)	(1.0)%
EBITDA [(1)]	$ **(3,400)**	$ (3,851)	451	11.7%	$ **(4,629)**	$ (4,827)	198	4.1%
Additional adjustments:								
Stock-based compensation expense (a)	**177**	398	(221)	(55.5)%	**420**	708	(288)	(40.7)%
Software implementation and configuration costs (b)	—	1,325	(1,325)	(100.0)%	—	2,080	(2,080)	(100.0)%
Transition to TSX Venture Exchange (c)	—	—	—	100.0%	**100**	—	100	100.0%
Costs related to internalizing fulfillment services (d)	**810**	—	810	100.0%	**810**	—	810	100.0%
Legal and regulatory settlement amounts (e)	**(180)**	—	(180)	100.0%	**(180)**	—	(180)	100.0%
Adjusted EBITDA [(1)]	$ **(2,593)**	$ (2,128)	(465)	(21.9)%	$ **(3,479)**	$ (2,039)	(1,440)	(70.6)%

Reconciliation of Net loss to Adjusted net loss

	For the three-months ended				For the six-months ended			
	July 29, 2023	July 30, 2022	$ Change	% Change	July 29, 2023	July 30, 2022	$ Change	% Change
Net loss	**$ (4,252)**	$ (4,835)	583	12.1%	**$ (6,235)**	$ (6,809)	574	8.4%
Software implementation and configuration costs (b)	—	1,325	(1,325)	(100.0)%	—	2,080	(2,080)	(100.0)%
Transition to TSX Venture Exchange (c)	—	—	—	100.0%	**100**	—	100	100.0%
Costs related to internalizing fulfillment services (d)	**810**	—	810	100.0%	**810**	—	810	100.0%
Legal and regulatory settlement amounts (e)	**(180)**	—	(180)	100.0%	**(180)**	—	(180)	100.0%
Adjusted net loss [(1)]	**$ (3,622)**	$ (3,510)	(112)	(3.2)%	**$ (5,505)**	$ (4,729)	(776)	(16.4)%

Reconciliation of Fully diluted net loss per common share to Adjusted fully diluted net loss per common share

	For the three-months ended				For the six-months ended			
	July 29, 2023	July 30, 2022	Change	% Change	July 29, 2023	July 30, 2022	Change	% Change
Weighted average number of shares outstanding, fully diluted	**26,702,449**	26,487,933	214,516	0.8%	**26,662,895**	26,456,830	206,065	0.8%
Adjusted weighted average number of shares outstanding, fully diluted	**26,702,449**	26,487,933	214,516	0.8%	**26,662,895**	26,456,830	206,065	0.8%
Net loss	$ **(4,252)**	$ (4,835)	$ 583	12.1%	$ **(6,235)**	$ (6,809)	$ 574	8.4%
Adjusted net loss [(1)]	$ **(3,622)**	$ (3,510)	$ (112)	(3.2)%	$ **(5,505)**	$ (4,729)	$ (776)	(16.4)%
Net loss per common share, fully diluted	$ **(0.16)**	$ (0.18)	$ 0.02	12.8%	$ **(0.23)**	$ (0.26)	$ 0.02	9.1%
Adjusted net loss per common share, fully diluted	$ **(0.14)**	$ (0.13)	$ (0.00)	(2.4)%	$ **(0.21)**	$ (0.18)	$ (0.03)	(15.5)%

(a) Represents non-cash stock-based compensation expense.
(b) Represents costs related to non-recurring software implementation and configuration costs.
(c) Represents costs incurred to voluntarily delist from Nasdaq and list on to the TSX Venture Exchange.
(d) Represents costs incurred to internalize fulfillment services
(e) Represents the reversal of management's best estimate of financial exposure regarding a claim that was settled.

OPERATING RESULTS FOR THE SECOND QUARTER OF FISCAL 2023 COMPARED TO THE SECOND QUARTER OF FISCAL 2022

	For the three-months ended			
	July 29, 2023	July 30, 2022	$ Change	% Change
Consolidated statement of operations data:				
Sales	**$ 9,834**	$ 15,207	(5,373)	(35.3)%
Cost of sales	**6,203**	9,380	(3,177)	(33.9)%
Gross profit	**3,631**	5,827	(2,196)	(37.7)%
Selling, general and administration expenses	**7,922**	10,572	(2,650)	(25.1)%
Results from operating activities	**(4,291)**	(4,745)	454	9.6%
Finance costs	**177**	167	10	6.0%
Finance income	**(216)**	(77)	(139)	(180.5)%
Net loss	**$ (4,252)**	$ (4,835)	583	12.1%
Percentage of sales:				
Sales	**100.0%**	100.0%		
Cost of sales	**63.1%**	61.7%		
Gross profit	**36.9%**	38.3%		
Selling, general and administration expenses	**80.6%**	69.5%		
Results from operating activities	**(43.6)%**	(31.2)%		
Net loss	**(43.2)%**	(31.8)%		
Other financial and operations data:				
Adjusted EBITDA (1)	$ **(2,593)**	$ (2,128)	(465)	(21.9)%
Adjusted EBITDA as a percentage of sales (1)	**(26.4)%**	(14.0)%		
Adjusted net loss (1)	$ **(3,622)**	$ (3,510)	(112)	(3.2)%
Adjusted net loss as a percentage of sales (1)	**(36.8)%**	(23.1)%		

Geographic segments. We operate the business in two geographic segments; Canada and the U.S., that derive sales from distribution channels including our online stores, both DAVIDsTEA online and Amazon, as well as retail and wholesale. We generate sales in all channels in Canada and at this time, we only service our U.S. customers from our online stores.

Sales. Sales for the second quarter of Fiscal 2023 decreased by $5.4 million, or 35.3%, to $9.8 million. Sales in Canada of $8.4 million, representing 85.2% of total revenues, dropped $4.4 million or 34.5% over the prior year quarter. U.S. sales of $1.5 million declined by $1.0 million or 39.6% over the prior year quarter.

Sales continue to be impacted by unfavorable economic conditions that dampen consumer demand. We also believe that our e-commerce revenues have been significantly impacted by order fulfillment failures in the fourth quarter of 2022 that left many consumers frustrated. On June 9, 2023, the Company sent a notice of termination, effective July 23, 2023, to its fulfillment service provider at that time. The Company internalized fulfillment services to its Canadian consumers effective July 24, 2023, and to its US consumers effective July 29, 2023, and as a result we have seen immediate and tangible improvements in the overall customer experience.

Tea and variety box assortment sales decreased by 34.0% or $4.5 million to $8.7 million over the prior year quarter. Tea accessories sales decreased by 36.1% or $0.5 million, to $0.9 million over the prior year quarter.

Online sales of $4.8 million decreased by $3.5 million or 41.4% from the prior year quarter as we continued to see a levelling out of pandemic-fueled online sales in addition to the impact to consumer loss resulting from order fulfillment challenges experienced in the fourth quarter of 2022, that we have not recovered from. E-commerce sales represented 49.5% of sales compared to 54.8% of sales in the prior year quarter.

Sales from the wholesale channel decreased by $1.3 million or 47.5%, to $1.4 million, from $2.7 million in the prior year quarter. Wholesale sales represented 14.3% of sales compared to 17.6% of sales in the prior year quarter.

Brick-and-mortar sales declined by $0.6 million, or 15.4%, to $3.6 million from $4.2 million for the same period in the prior year. Brick-and-mortar sales represented 36.2% of sales compared to 27.6% of sales in the prior year quarter.

Gross profit. Gross profit dropped by 37.7% to $3.6 million in the second quarter of Fiscal 2023 from the prior year quarter due to lower sales and a per unit increase in freight, shipping and fulfillment costs. Gross profit as a percentage of sales decreased slightly to 36.9% for the quarter compared to 38.3% in the prior year quarter. At a segment level, Gross profit was 36.2% and 41.3% in the quarter compared to 38.0% and 40.0% in the prior year quarter in Canada and U.S., respectively.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of $7.9 million decreased by $2.7 million, or 25.1% compared to the prior year quarter. Management set out to reduce its annual SG&A costs between $8.0 million and $10.0 million at the start of the year and is well on its way to achieving its goal. This net decrease is due primarily to the elimination of software implementation costs of $1.3 million, reduction of staff compensation costs of $0.8 million, a reduction in online marketing expenses of $0.6 million and reduction of professional and consulting fees of $0.3 million, partially offset by costs related to internalizing fulfillment services of $0.8 million and ongoing IT maintenance costs of $0.2 million. As a percentage of sales, SG&A increased to 80.6% in the second quarter from 69.5% in the prior year quarter, due to a deleveraging of fixed costs as a result of decreased sales this quarter.

EBITDA and Adjusted EBITDA[1]. EBITDA was negative $3.4 million in the quarter ended July 29, 2023, compared to negative $3.9 million in the prior year quarter. Adjusted EBITDA for the quarter ended July 29, 2023, was negative $2.6 million compared to negative $2.1 million for the same period in the prior year. The decrease in Adjusted EBITDA, of $0.5 million, reflects the impact of lower Sales and Gross Profit, partially offset by a decline in SG&A expenses.

Net loss. Net loss totaled $4.3 million in the quarter ended July 29, 2023, compared to a net loss of $4.8 million in the prior year quarter. Adjusted net loss was $3.6 million in the second quarter compared to Adjusted net loss of $3.5 million in the prior year quarter.

Fully diluted net loss per share. Fully diluted net loss per common share amounted to $0.16 in the second quarter compared to a fully diluted net loss per common share of $0.18 in the prior year quarter. Adjusted fully diluted net loss per common share[1], which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.14 compared to an Adjusted fully diluted net loss of $0.13 in the prior year quarter.

[1] For a reconciliation of EBITDA, Adjusted EBITDA, Adjusted net loss and Adjusted fully diluted loss per share to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", in this MD&A.

OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2023 COMPARED TO THE YEAR TO DATE FISCAL 2022

	For the six-months ended			
	July 29, 2023	July 30, 2022	$ Change	% Change
Consolidated statement of operations data:				
Sales	$ **24,147**	$ 35,494	(11,347)	(32.0)%
Cost of sales	**14,889**	21,459	(6,570)	(30.6)%
Gross profit	**9,258**	14,035	(4,777)	(34.0)%
Selling, general and administration expenses	**15,630**	20,622	(4,992)	(24.2)%
Results from operating activities	**(6,372)**	(6,587)	215	3.3%
Finance costs	**359**	338	21	6.2%
Finance income	**(496)**	(116)	(380)	(327.6)%
Net loss	$ **(6,235)**	$ (6,809)	574	8.4%
Percentage of sales:				
Sales	**100.0%**	100.0%		
Cost of sales	**61.7%**	60.5%		
Gross profit	**38.3%**	39.5%		
Selling, general and administration expenses	**64.7%**	58.1%		
Results from operating activities	**(26.4)%**	(18.6)%		
Net loss	**(25.8)%**	(19.2)%		
Other financial and operations data:				
Adjusted EBITDA [(1)]	$ **(3,479)**	$ (2,039)	(1,440)	(70.6)%
Adjusted EBITDA as a percentage of sales [(1)]	**(14.4)%**	(5.7)%		
Adjusted net loss [(1)]	$ **(5,505)**	$ (4,729)	(776)	(16.4)%
Adjusted net loss as a percentage of sales [(1)]	**(22.8)%**	(13.3)%		

Sales. Sales for the year to date fiscal 2023 decreased $11.3 million, or 32.0%, to $24.1 million. Sales in Canada of $20.6 million, representing 85.2% of total revenues, dropped $8.8 million or 30.0% over the prior year period. U.S. sales of $3.6 million declined by $2.5 million or 41.3% over the prior year quarter.

Sales in the year to date period were impacted by unfavorable economic conditions. We also believe that our e-commerce revenues have been significantly impacted by order fulfillment failures in the fourth quarter that left many consumers frustrated. On June 9, 2023, the Company sent a notice of termination, effective July 23, 2023, to its fulfillment service provider at that time. The Company internalized fulfillment services to its Canadian consumers effective July 24, 2023, and to its US consumers effective July 29, 2023, and as a result we have seen immediate and tangible improvements in the overall customer experience.

Tea and variety box assortment sales decreased by 30.8% or $9.6 million to $21.5 million over the prior year period. Tea accessories sales decreased by 35.0% or $1.3 million, to $2.3 million over the prior year period.

Online sales of $12.5 million decreased by $8.7 million or 40.8% from the prior year period as we continued to see a levelling out of pandemic-fueled online sales in addition to the impact to consumer loss resulting from order fulfillment challenges experienced in the fourth quarter, that we have not recovered from. E-commerce sales represented 51.8% of sales compared to 59.6% of sales in the prior year period.

Sales from the wholesale channel decreased by $1.6 million or 29.7%, to $3.8 million, from $5.4 million in the prior year period. Wholesale sales represented 15.8% of sales compared to 15.3% of sales in the prior year period.

Brick-and-mortar sales declined by $1.1 million, or 12.3%, to $7.8 million from $8.9 million for the same period in the prior year period. Brick-and-mortar sales represented 32.4% of sales compared to 25.1% of sales in the prior year period.

Gross profit. Gross profit dropped by 34.0% to $9.3 million in the six-month period ended July 29, 2023 from the prior year period due to lower sales and a per unit increase in freight, shipping and fulfillment costs. Gross profit as a percentage of sales decreased slightly to 38.3% for the six-month period ended July 29, 2023 compared to 39.5% in the prior year period. At a segment level, Gross profit was 37.8% and 41.5% in the six-month period ended July 29, 2023 compared to 39.6% and 39.2% in the prior year period in Canada and U.S., respectively.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of $15.6 million decreased by $5.0 million, or 24.2% compared to the prior year period. Management set out to reduce its annual SG&A costs between $8.0 million and $10.0 million at the start of the year and is well on its way to achieving its goal. This net decrease is due primarily to the elimination of software implementation costs of $2.1 million, reduction of staff compensation costs of $1.4 million, a reduction in marketing expenses of $1.6 million, and other cost reductions of $1.0 million, partially offset by costs related to internalizing fulfillment services of $0.8 million and ongoing IT maintenance costs of $0.2 million. As a percentage of sales, SG&A increased to 64.7% for the six-month period ended July 29, 2023, from 58.1% in the prior year period, due to a deleveraging of fixed costs as a result of decreased sales this quarter.

EBITDA and Adjusted EBITDA[1]. EBITDA was negative $4.6 million in the six-month period ended July 29, 2023, compared to negative $4.8 million in the prior year period. Adjusted EBITDA for the six-month period ended July 29, 2023, was negative $3.5 million compared to negative $2.0 million for the same period in the prior year. The decrease in Adjusted EBITDA, of $1.5 million, reflects the impact of lower Sales and Gross Profit, partially offset by a decline in SG&A expenses.

Net loss. Net loss totaled $6.2 million in the six-month period ended July 29, 2023, compared to a net loss of $6.8 million in the prior year period. Adjusted net loss was $5.5 million in the six-month period ended July 29,2023 compared to Adjusted net loss of $4.7 million in the prior year quarter.

Fully diluted net loss per share. Fully diluted net loss per common share amounted to $0.23 in the six-month period ended July 29, 2023 compared to a fully diluted net loss per common share of $0.26 in the prior year quarter. Adjusted fully diluted net loss per common share[1], which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.21 compared to an Adjusted fully diluted net loss of $0.18 in the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

As at July 29, 2023, the Company had $14.2 million of cash held by major Canadian financial institutions.

Working capital was $24.5 million as at July 29, 2023 compared to $30.8 million as at January 28, 2023. The decrease in working capital can be attributed to a decrease in cash, accounts receivable and inventories, partially offset by a decline in accounts payable.

The Company's primary source of liquidity is cash on hand and cashflow generated from operations. Working capital requirements are driven by the purchase of inventory, payment of payroll, ongoing technology expenditures and other operating costs.

Working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as DAVIDsTEA takes title to increasing quantities of inventory in anticipation of the peak selling season in the fourth fiscal quarter. Capital expenditures of $321 in the second quarter of Fiscal 2023 include furniture and equipment of $152, store leasehold improvements of $71, computer hardware of $21 and intangible assets of $77 compared to $129 additions in prior year quarter related to furniture and equipment.

[1] For a reconciliation of EBITDA, Adjusted EBITDA and Adjusted fully diluted (loss) earnings per share to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", in this MD&A.

As at July 29, 2023, the Company had financial commitments in connection with the purchase of goods and services that are enforceable and legally binding, amounting to $8.3 million, net of $1.2 million of advances (January 28, 2023 - $6.7 million, net of $0.8 million of advances) which are expected to be discharged within 12 months.

Cash Flow

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

	For the three-months ended				For the six-months ended			
	July 29, 2023 $	**July 30, 2022 $**	**$ Change**	**% Change**	**July 29, 2023 $**	**July 30, 2022 $**	**$ Change**	**% Change**
Cash flows used in:								
Operating activities	**(4,297)**	(2,735)	(1,562)	(57.1)%	**(5,762)**	(4,413)	(1,349)	(30.6)%
Financing activities	**(772)**	(769)	(3)	(0.4)%	**(1,542)**	(1,518)	(24)	(1.6)%
Investing activities	**(321)**	(128)	(193)	(150.8)%	**(943)**	(128)	(815)	(636.7)%
Decrease in cash	**(5,390)**	(3,632)	(1,758)	(48.4)%	**(8,247)**	(6,059)	(2,188)	(36.1)%

Three-months ended July 29, 2023 compared to three-months ended July 30, 2022

Cash flows used in operating activities. Net cash used in operating activities amounted to $4.3 million for the quarter ended July 29, 2023, representing a change of $1.6 million from the prior year quarter. This decrease is primarily due to a decrease in Trade and other payables, partially offset by an improvement in Accounts and other receivables and Inventories, over the prior year quarter.

Cash flows used in financing activities. Net cash flows used in financing activities of $772 during the quarter ended July 29, 2023, represents an increase in lease payments of $3 compared to the prior year quarter.

Cash flows used in investing activities. Net cash flows used in investing activities of $321 include furniture and equipment of $152,store leasehold improvements of $71, computer hardware of $21 and intangible assets of $77 compared to $129 of additions in prior year quarter related to furniture and equipment.

Six-months ended July 29, 2023 compared to six-months ended July 30, 2022

Cash flows used in operating activities. Net cash used in operating activities amounted to $5.8 million for the six-month period ended July 29, 2023, representing a change of $1.4 million from the prior year. This decrease is primarily due to a decrease in Trade and other payables, partially offset by an improvement in Accounts and other receivables, Prepaid expenses and deposits and Inventories, over the prior year period.

Cash flows used in financing activities. Net cash flows used in financing activities of $1.5 million during the six-month period ended July 29, 2023 represents an increase in lease payments of $24 compared to the prior year period.

Cash flows used in investing activities. Net cash flows used in investing activities of $943 for the six-month period ended July 29, 2023, include store leasehold improvements of $580, furniture and equipment of $211, computer hardware of $21 and intangible assets of $131 compared to $129 additions in prior year period related to furniture and equipment.

SUMMARY OF QUARTERLY RESULTS

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

	Fiscal Year 2023		Fiscal Year 2022				Fiscal Year 2021	
	Second Quarter $	First Quarter $	Fourth Quarter $	Third Quarter $	Second Quarter $	First Quarter $	Fourth Quarter $	Third Quarter $
Sales	9,834	14,313	31,356	16,176	15,207	20,287	39,878	22,203
Net (loss) income	(4,252)	(1,983)	(3,342)	(4,717)	(4,835)	(1,974)	1,291	(1,863)
EBITDA [1]	(3,400)	(1,230)	(2,471)	(3,759)	(3,851)	(976)	2,613	(778)
Adjusted EBITDA [1]	(2,593)	(887)	(932)	(2,004)	(2,128)	89	3,696	(308)
Net (loss) earnings per share:								
Basic	(0.16)	(0.07)	(0.12)	(0.18)	(0.18)	(0.07)	0.05	(0.07)
Fully diluted	(0.16)	(0.07)	(0.12)	(0.18)	(0.18)	(0.07)	0.05	(0.07)
Adjusted fully diluted [1]	(0.14)	(0.07)	(0.08)	(0.12)	(0.13)	(0.05)	0.13	(0.01)
Weighted average number of shares outstanding:								
Basic	26,702,449	26,623,773	26,893,028	26,566,441	26,487,933	26,426,055	26,393,118	26,359,969
Fully diluted	26,702,449	26,623,773	26,893,028	26,566,441	26,487,933	26,426,055	27,614,734	26,359,969
Cash	14,193	19,583	22,440	16,131	19,048	22,680	25,107	13,367
Accounts receivable	1,675	2,769	3,258	3,937	2,497	3,197	3,209	4,602
Prepaid expenses and deposits	5,030	4,992	5,839	6,137	5,172	4,479	4,142	4,835
Inventories	18,130	18,184	19,522	29,985	30,234	28,359	31,048	39,802
Trade and other payables	6,851	9,057	12,310	14,445	11,701	8,966	12,300	13,958

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for purchase obligations. As at July 29, 2023, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company. Purchase obligations amounting to $8.3 million, net of advances amounting to $1.2 million, which are included in Prepaid expenses and deposits, (January 28, 2023 - $6.7 million, net of $0.8 million of advances) are expected to be discharged within 12 months.

MARKET RISK

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

LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are not presently a party to any significant legal proceedings, government actions, administrative actions, investigations or claims that are pending against us or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business, financial condition or operating results. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. See "Risk Factors and Uncertainties" as previously disclosed in our MD&A for our fiscal year ended January 28, 2023 which is available on the Company's website at www.davidstea.com and on the SEDAR+ website at www.sedarplus.ca.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of financial statements requires us to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on our reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial position, changes in financial position or results of operations. Our significant accounting policies are discussed under Note 3 to our consolidated financial statements for the year ended January 28, 2023. There have been no material changes in the first quarter of Fiscal 2023 compared to the critical accounting policies and estimates noted in our Annual Report.

RISK FACTORS

There have been no material changes to the Risk Factors and Uncertainties in the second quarter of Fiscal 2023 as compared to what was previously disclosed in our MD&A for our fiscal year ended January 28, 2023 which is available on the Company's website at www.davidstea.com and on the SEDAR+ website at www.sedarplus.ca.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's annual information form, is available on SEDAR+ at www.sedarplus.ca.