

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

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended May 4, 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

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>
<u>Common shares, no par value per share</u>	<u>NASDAQ Global Market</u>	<u>DTEA</u>

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
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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 December 20, 2019, 26,079,662 common shares of the registrant were outstanding

On June 14, 2019, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was
US\$1.00 = CAD\$1.3382

EXPLANATORY NOTE

DAVIDsTEA Inc. (the “Company”) is filing this Form 10-Q/A (“Form 10-Q/A”) to amend its Quarterly Report on Form 10-Q for the period ended May 4, 2019, originally filed with the Securities and Exchange Commission (the “SEC”) on June 18, 2019 (“Original Filing”) to restate its unaudited condensed interim consolidated financial statements and related footnote disclosures for the three months ended May 4, 2019. Consequently, the previously filed unaudited condensed interim consolidated financial statements for the period ended May 4, 2019 should no longer be relied upon. This Form 10-Q/A also amends certain other items in the Original Filing, as listed in “Items Amended in this Form 10 -Q/A” below.

Effects of the restatement

As previously disclosed in a Current Report on Form 8-K filed with the SEC on December 18, 2019, the Board of Directors of the Company (the “Board”) in consultation with the Audit Committee of the Board, reached a determination that the Company’s unaudited condensed interim consolidated financial statements and related footnote disclosures for the three months ended May 4, 2019 included in its Quarterly Report on Form 10-Q for the quarter ended May 4, 2019 contained a material error. During the course of the Company’s financial statement close process for the quarter ended November 2, 2019, accounting errors were identified in the assessment of impairment indicators upon completing the store impairment analysis under IAS 36, *Impairment of Assets* (“IAS 36”), subsequent to the adoption of IFRS 16, *Leases* (“IFRS 16”). When appropriately performing the assessment of impairment indicators with respect to the right-of-use assets (“ROU assets”) as at May 4, 2019 and August 3, 2019, impairment charges of \$13,924 and \$5,025 respectively were identified that would have been required to be recognized in the respective periods under the Company’s accounting policy for transition to IFRS 16, which included the use of the practical expedient for assessing impairment. Upon further review, the Company also determined that, pursuant to IFRS standards, its financial statements would be more relevant had they applied IAS 36 to assess impairment of ROU assets as of the date of initial adoption, instead of applying the available practical expedient. Accordingly, the Company elected to voluntarily change its accounting policy to perform an impairment assessment in accordance with IAS 36 at the date of transition to IFRS 16. The Company believes this change is more relevant because it more faithfully depicts the performance of the Company. Subsequent to the retrospective application of the change in accounting policy, the impairment charges were nil and \$5,025 for the quarters ended May 4, 2019 and August 3, 2019, respectively.

The changes to the unaudited condensed interim consolidated financial statements and related footnote disclosures for the quarters ended May 4, 2019 and August 3, 2019 as a result of the error correction and subsequent voluntary change in accounting policy result in (i) a non-cash impact on the opening deficit within total equity upon the initial adoption of IFRS 16 and (ii) impairment charges for the three and six-month periods ended August 3, 2019, offset by the ongoing impact related to lower depreciation of the ROU assets, respectively. The Company determined that these changes have a material impact on the as filed condensed interim consolidated financial statements as at and for the three-month period ended May 4, 2019, and the three and six-month periods ended August 3, 2019, and as a result, the unaudited condensed interim consolidated financial statements and related footnote disclosures for the quarters ended May 4, 2019 and August 3, 2019 are being restated.

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

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

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

The following tables illustrate the impact of the error correction related to unrecognized impairment charges, and the retrospective application of the voluntary change in accounting policy:

Consolidated Balance sheet

	May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Right-of-use assets	72,373	(14,165)	58,208	—	58,208
Total assets	184,591	(14,165)	170,426	—	170,426
Deficit	(50,540)	(13,924)	(64,464)	—	(64,464)
Accumulated other comprehensive income	1,241	(241)	1,000	—	1,000
Total equity	64,529	(14,165)	50,364	—	50,364
Total liabilities and equity	184,591	(14,165)	170,426	—	170,426

Consolidated statement of income (loss) and comprehensive income (loss)

	For the three months ended May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Selling, general and administration expenses	28,709	13,924	42,633	(14,613)	28,020
Results from operating activities	(2,373)	(13,924)	(16,297)	14,613	(1,684)
Loss before income taxes	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Net loss	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Cumulative translation adjustment	(256)	(241)	(497)	—	(497)
Total comprehensive loss	(4,265)	(14,165)	(18,430)	14,613	(3,817)
Net loss per share	(0.15)	(0.54)	(0.69)	0.56	(0.13)

Consolidated statement of cash flows

	For the three months ended May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Net loss	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Amortization of right-of-use assets	3,791	—	3,791	(689)	3,102
Impairment of right-of-use assets	—	13,924	13,924	(13,924)	—
Cash flows related to operating activities	360	—	360	—	360

Consolidated statement of equity (deficit)

	For the three months ended May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
IFRS 16 adoption adjustment	1,280	—	1,280	(14,613)	(13,333)
Adjusted balance at beginning of period	68,736	—	68,736	(14,613)	54,123
Net loss	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Accumulated other comprehensive loss	(256)	(241)	(497)	—	(497)
Total comprehensive loss	(4,265)	(14,165)	(18,430)	14,613	(3,817)

Internal Control Considerations

In light of the restatement, our Chief Executive Officer and Chief Financial Officer have reassessed their evaluation of the effectiveness of the design and operation of its disclosure controls over financial reporting as of May 4, 2019 and concluded that the Company did not maintain effective disclosure control and procedures due to a material weakness in the Company's internal control over financial reporting that existed at that date. The material weakness that existed on those dates is described in Part I, Item 4 – Controls and Procedures in this Form 10-Q/A.

Items Amended in this Form 10-Q/A

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing, in its entirety, as amended and superseded as necessary to reflect the restatement described above. The following items in the Original Filing have been amended as a result of, and to reflect, the restatement:

- Part I, Item 1. Financial Statements
- Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I, Item 4. Controls and Procedures
- Part II, Item 1A. Risk Factors
- Part II, Item 6. Exhibits

Signatures

In accordance with applicable SEC rules, this Form 10-Q/A includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the filing date of this Form 10-Q/A. In addition, the Exhibit Index has been appropriately updated.

Except as describe above no other changes have been made to the Original Filing. This Form 10-Q/A speaks as of the date of the Original Filing and does not reflect events that may have occurred after the date of the Original Filing or modify or update any disclosures that may have been affected by subsequent events.

Restatement of Other Financial Statements

The Company is also concurrently filing an amended Quarterly Report on Form 10-Q/A for its second quarter period ended August 3, 2019 (the "Q2 Form 10-Q/A") to amend and restate the previously issued unaudited condensed interim consolidated financial statements as a result of the same error correction and voluntary change in accounting policy described above and originally filed with the SEC on September 17, 2019.

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/A 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 June 14, 2019, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was US\$1.00 = CAD\$1.3382.

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	
	May 4, 2019 \$ (Restated - Note 3)	February 2, 2019 \$
ASSETS		
Current		
Cash	35,491	42,074
Accounts and other receivables	2,909	3,681
Inventories	31,642	34,353
Income tax receivable	4,112	4,107
Prepaid expenses and deposits	9,164	8,819
Total current assets	83,318	93,034
Property and equipment	22,879	23,788
Intangible assets	6,021	5,678
Right-of-use assets	58,208	—
Total assets	170,426	122,500
LIABILITIES AND EQUITY		
Current		
Trade and other payables	15,305	20,951
Deferred revenue	5,567	6,241
Current portion of provisions	—	3,714
Current portion of lease liabilities	16,324	—
Total current liabilities	37,196	30,906
Deferred rent and lease inducements	—	8,698
Provisions	—	15,440
Non-current portion of lease liabilities	82,866	—
Total liabilities	120,062	55,044
Commitments and contingencies		
Equity		
Share capital	112,740	112,519
Contributed surplus	1,088	1,400
Deficit	(64,464)	(47,960)
Accumulated other comprehensive income	1,000	1,497
Total equity	50,364	67,456
Total liabilities and equity	170,426	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	
		May 4, 2019 \$	May 5, 2018 \$
		(Restated - Note 3)	
Sales	[Note 12]	44,265	45,786
Cost of sales		17,929	23,094
Gross profit		26,336	22,692
Selling, general and administration expenses	[Note 9]	28,020	24,396
Results from operating activities		(1,684)	(1,704)
Finance costs		1,827	79
Finance income		(191)	(237)
Loss before income taxes		(3,320)	(1,546)
Provision for income tax (recovery)	[Note 8]	—	(344)
Net loss		(3,320)	(1,202)
Other comprehensive loss			
Items to be reclassified subsequently to income:			
Unrealized net gain on forward exchange contracts	[Note 13]	—	707
Realized net loss on forward exchange contracts reclassified to inventory		—	438
Provision for income tax recovery		—	(306)
Cumulative translation adjustment		(497)	(321)
Other comprehensive income (loss), net of tax		(497)	518
Total comprehensive loss		(3,817)	(684)
Net loss per share:			
Basic and fully diluted	[Note 10]	(0.13)	(0.05)
Weighted average number of shares outstanding			
Basic and fully diluted	[Note 10]	26,019,594	25,893,327

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	
	May 4, 2019	May 5, 2018
	\$	\$
	(Restated - Note 3)	
OPERATING ACTIVITIES		
Net loss	(3,320)	(1,202)
Items not affecting cash:		
Depreciation of property and equipment	1,325	1,686
Amortization of intangible assets	399	182
Amortization of right-of-use assets	3,102	—
Interest on lease liabilities	1,827	—
Deferred rent	—	(137)
Recovery for onerous contracts	—	(176)
Stock-based compensation expense	127	295
Amortization of financing fees	—	20
Accretion on provisions	—	59
Deferred income taxes	—	956
Sub-total	3,460	1,683
Net change in other non-cash working capital balances related to operations	(3,100)	(8,789)
Cash flows related to operating activities	360	(7,106)
FINANCING ACTIVITIES		
Payment of lease liabilities	(5,823)	—
Cash flows related to financing activities	(5,823)	—
INVESTING ACTIVITIES		
Additions to property and equipment	(415)	(928)
Additions to intangible assets	(705)	(1,582)
Cash flows related to investing activities	(1,120)	(2,510)
Decrease in cash during the period	(6,583)	(9,616)
Cash, beginning of the period	42,074	63,484
Cash, end of the period	35,491	53,868
Supplemental Information		
Cash paid for:		
Interest	—	—
Income taxes (classified as operating activity)	—	—
Cash received for:		
Interest	195	233
Income taxes (classified as operating activity)	—	—

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 three months ended May 5, 2018	—	—	(1,202)	—	—	—	(1,202)
Other comprehensive loss	—	—	—	839	(321)	518	518
Total comprehensive loss	—	—	(1,202)	839	(321)	518	(684)
Issuance of common shares	—	—	—	—	—	—	—
Common shares issued on vesting of restricted stock units	257	(593)	134	—	—	—	(202)
Stock-based compensation expense	—	295	—	—	—	—	295
Income tax impact associated with stock options	—	11	—	—	—	—	11
Balance, May 5, 2018	111,949	2,355	(15,789)	672	1,601	2,273	100,788
Balance, February 2, 2019	112,519	1,400	(47,960)	—	1,497	1,497	67,456
IFRS 16 adoption adjustment (1)	—	—	(13,333)	—	—	—	(13,333)
Adjusted balance at beginning of period (1)	112,519	1,400	(61,293)	—	1,497	1,497	54,123
Net loss for the three months ended May 4, 2019 (1)	—	—	(3,320)	—	—	—	(3,320)
Other comprehensive loss	—	—	—	—	(497)	(497)	(497)
Total comprehensive loss (1)	—	—	(3,320)	—	(497)	(497)	(3,817)
Issuance of common shares	—	—	—	—	—	—	—
Common shares issued on vesting of restricted stock units	221	(439)	149	—	—	—	(69)
Stock-based compensation expense	—	127	—	—	—	—	127
Balance, May 4, 2019	112,740	1,088	(64,464)	—	1,000	1,000	50,364

(1) See restated note 3

See accompanying notes.

DAVIDsTEA Inc.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended May 4, 2019 and May 5, 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-month period ended May 4, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on June 18, 2019. The amended and restated unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the three-month period ended May 4, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on December 20, 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 with respect to changes in accounting policies.

3. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENT OF PREVIOUSLY-ISSUED FINANCIAL STATEMENTS

During the course of the Company’s financial statement close process for the quarter ended November 2, 2019, accounting errors were identified in the assessment of impairment indicators upon completing the store impairment analysis under IAS 36, *Impairment of Assets* (“IAS 36”), subsequent to the adoption of IFRS 16, *Leases* (“IFRS 16”). When appropriately performing the assessment of impairment indicators with respect to the right-of-use assets (“ROU assets”) as at May 4, 2019 and August 3, 2019, impairment charges of \$13,924 and \$5,025 respectively were identified that would have been required to be recognized in the respective periods under the Company’s accounting policy for transition to IFRS 16, which included the use of the practical expedient for assessing impairment. Upon further review, the Company also determined that, pursuant to IFRS standards, its financial statements would be more relevant had they applied IAS 36 to assess impairment of ROU assets as of the date of initial adoption, instead of applying the available practical expedient. Accordingly, the Company elected to voluntarily change its accounting policy to perform an impairment assessment in accordance with IAS 36 at the date of transition to IFRS 16. The Company believes this change is more relevant because it more faithfully depicts the performance of the Company. Subsequent to the retrospective application of the change in accounting policy, the impairment charges were nil and \$5,025 for the quarters ended May 4, 2019 and August 3, 2019, respectively.

Effects of the restatement

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

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

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

The following tables illustrate the impact of the error correction related to unrecognized impairment charges, and the retrospective application of the voluntary change in accounting policy:

Consolidated Balance sheet

	May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Right-of-use assets	72,373	(14,165)	58,208	—	58,208
Total assets	184,591	(14,165)	170,426	—	170,426
Deficit	(50,540)	(13,924)	(64,464)	—	(64,464)
Accumulated other comprehensive income	1,241	(241)	1,000	—	1,000
Total equity	64,529	(14,165)	50,364	—	50,364
Total liabilities and equity	184,591	(14,165)	170,426	—	170,426

Consolidated statement of income (loss) and comprehensive income (loss)

	For the three months ended May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Selling, general and administration expenses	28,709	13,924	42,633	(14,613)	28,020
Results from operating activities	(2,373)	(13,924)	(16,297)	14,613	(1,684)
Loss before income taxes	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Net loss	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Cumulative translation adjustment	(256)	(241)	(497)	—	(497)
Total comprehensive loss	(4,265)	(14,165)	(18,430)	14,613	(3,817)
Net loss per share	(0.15)	(0.54)	(0.69)	0.56	(0.13)

Consolidated statement of cash flows

	For the three months ended May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Net loss	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Amortization of right-of-use assets	3,791	—	3,791	(689)	3,102
Impairment of right-of-use assets	—	13,924	13,924	(13,924)	—
Cash flows related to operating activities	360	—	360	—	360

Consolidated statement of equity (deficit)

	For the three months ended May 4, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
IFRS 16 adoption adjustment	1,280	—	1,280	(14,613)	(13,333)
Adjusted balance at beginning of period	68,736	—	68,736	(14,613)	54,123
Net loss	(4,009)	(13,924)	(17,933)	14,613	(3,320)
Accumulated other comprehensive loss	(256)	(241)	(497)	—	(497)
Total comprehensive loss	(4,265)	(14,165)	(18,430)	14,613	(3,817)

Internal Control Considerations

IFRS 16 – Leases

IFRS 16, “Leases” (“IFRS 16”) replaces IAS 17, “Leases” and related interpretations. This standard provides a single model for leases abolishing the current distinction between finance and operating leases, with most leases being recognized on the balance sheet. Certain exemptions will apply for short-term leases and leases of low value assets. The new standard is effective for annual periods beginning on or after January 1, 2019.

a) Nature of the effect of adoption of IFRS 16 (restated)

The Company has adopted IFRS 16 as at February 3, 2019. 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. 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, and has applied the following practical expedients:

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

At the date of initial application of IFRS 16, the Company tested for impairment in accordance with IAS 36 *Impairment of assets*.

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

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

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

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

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

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

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 measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. 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 recognised 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 \$
	(Restated - Note 3)	
Balance, February 3, 2019	60,983	102,168
Amortization expense	(3,102)	—
Interest Expense	—	1,827
Payments	—	(5,823)
CTA	327	1,018
Balance, May 4, 2019	58,208	99,190
Presented as:		
Current	—	16,324
Non-Current	58,208	82,866

The Company recognizes variable lease payments of \$210 for the three months ended May 4, 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

	May 4, 2019 \$	February 2, 2019 \$
Finished goods	28,978	28,991
Goods in transit	731	3,262
Packaging	1,933	2,100
	<u>31,642</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 May 4, 2019, the Company did not have any borrowings under the Amended Revolving Facility.

As at May 4, 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 current lending agreement will be terminated on the earlier of (a) January 24, 2020, and (b) the company securing new financing. 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

	May 4, 2019 \$	February 2, 2019 \$
Share Capital - Common shares	112,740	112,519

During the three-month periods ended May 4, 2019 and May 5, 2018, no stock options were exercised for common shares.

In addition, during the three-month period ended May 4, 2019, 39,365 common shares [May 5, 2018 – 29,785 common shares] were issued in relation to the vesting of restricted stock units ("RSU"), resulting in an increase in share capital of \$221, net of tax [May 5, 2018 — \$257] and a reduction in contributed surplus of \$439 [May 5, 2018 — \$593].

Stock-based compensation

As at May 4, 2019, 929,053 common shares remain available for issuance under the 2015 Omnibus Plan.

No stock options were granted during the three-month periods ended May 4, 2019 and May 5, 2018.

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

	For the three months ended			
	May 4, 2019		May 5, 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	—	—	—	—
Forfeitures	(9,020)	6.20	(55,342)	5.34
Outstanding, end of period	128,520	7.20	392,437	7.44
Exercisable, end of period	127,101	7.12	260,604	6.01

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

	For the three months ended			
	May 4, 2019		May 5, 2018	
	RSUs outstanding #	Weighted average fair value per unit (1) \$	RSUs outstanding #	Weighted average fair value per unit (1) \$
Outstanding, beginning of year	270,976	5.26	289,416	9.70
Granted	—	—	416,450	4.35
Forfeitures	(21,716)	5.73	(10,880)	9.49
Vested	(42,934)	5.15	(29,785)	8.61
Vested, withheld for tax	(33,865)	6.44	(31,694)	8.58
Outstanding, end of period	172,461	5.00	633,507	6.29

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

During the three-month period ended May 4, 2019, the Company recognized a stock-based compensation expense of \$127 [May 5, 2018 — \$295].

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			
	May 4, 2019		May 5, 2018	
	%	\$	%	\$
	(Restated - Note 3)			
Income tax recovery — statutory rate	26.9	(893)	26.9	(416)
Increase (decrease) in provision for income tax (recovery) resulting from:				
Non-deductible items	(1.0)	33	(4.6)	71
Unrecognized deferred income tax assets	(25.9)	860	—	—
Other	—	—	(0.1)	1
Income tax provision (recovery) — effective tax rate	—	—	22.2	(344)

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

	For the three months ended	
	May 4, 2019	May 5, 2018
	\$	\$
Income tax provision (recovery)		
Current	—	(1,300)
Deferred	—	956
	—	(344)

9. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended	
	May 4, 2019	May 5, 2018
	\$	\$
	(Restated - Note 3)	
Wages, salaries and employee benefits	16,517	16,480
Depreciation of property and equipment	1,325	1,686
Amortization of intangible assets	399	182
Amortization right-of-use asset	3,102	—
Utilization of onerous contract	—	(1,340)
Recovery of provision for onerous contracts	—	(176)
Stock-based compensation	127	295
Strategic review and proxy contest	—	794
Other selling, general and administration	6,550	6,475
	28,020	24,396

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	
	May 4, 2019	May 5, 2018
	\$	\$
	(Restated - Note 3)	
Net loss for basic EPS	(3,320)	(1,202)
Weighted average number of shares outstanding:		
Basic and fully diluted	26,019,594	25,893,327
Net loss per share:		
Basic and fully diluted	(0.13)	(0.05)

As a result of the net loss during the three-month periods ended May 4, 2019 and May 5, 2018, the stock options and restricted stock units disclosed in Note 7 are anti-dilutive.

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-month period ended May 4, 2019, the Company purchased merchandise for resale amounting to \$15 [May 5, 2018 - \$64], and provided net infrastructure and administrative services of \$18 [May 5, 2018 - \$nil] from and to a company controlled by one of its executive employees, respectively.

In February 2019, the Company entered into an arrangement with a related party of the controlling shareholder for reporting and consulting services. Subsequent to quarter-end, the Company purchased the perpetual license rights to the reporting data model and associated intellectual property for \$200. The Company also entered into a consulting services arrangement with a related party of the principal shareholder wherein nil charges were incurred.

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

During the second quarter of 2019, the Company entered into a secured loan agreement with Oink Oink Candy Inc., doing business as "Squish", as borrower, and Rainy Day Investments Ltd. ("RDI"), as guarantor pursuant to which the Company agreed to lend to Squish an amount of up to \$4 million, amended on September 13, 2019 to reflect a maximum amount available under the facility of \$2.0 million and a repayment date no later than December 31, 2019. As of November 2, 2019, \$2.0 million was outstanding under the agreement. The loan bears interest, payable monthly, at a rate of 1% over Bank of Montreal's prime rate, which currently stands at 3.95%. RDI has guaranteed all of Squish's obligations to the Company and, as security in full for the guarantee, has given a movable hypothec (or lien) in favour of the Company on its shares of DAVIDsTEA. Squish is a company controlled by Sarah Segal, an officer of DAVIDsTEA. RDI, the principal shareholder of DAVIDsTEA, is controlled by Herschel Segal, Executive Chairman, Interim Chief Executive Officer and a director of DAVIDsTEA. The Company and Squish previously entered into a Collaboration and Shared Services Agreement pursuant to which they collaborate on and share various services and infrastructure.

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	
	May 4, 2019 \$	May 5, 2018 \$
Tea	33,424	33,230
Tea accessories	7,655	8,714
Food and beverages	3,186	3,842
	<u>44,265</u>	<u>45,786</u>

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

	May 4, 2019 (1) \$	February 2, 2019 \$
	(Restated - Note 3)	
Canada	73,033	27,996
US	14,075	1,470
Total	<u>87,108</u>	<u>29,466</u>

(1) Includes Right-of-use assets of \$45,589 in Canada and \$12,619 in US.

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

	For the three months ended May 4, 2019 (Restated - Note 3)		
	Canada \$	US \$	Consolidated \$
Sales	34,190	10,075	44,265
Cost of sales	14,114	3,815	17,929
Gross profit	20,076	6,260	26,336
Selling, general and administration expenses (allocated)	14,876	4,815	19,691

Results from operating activities before corporate expenses	5,200	1,445	6,645
Selling, general and administration expenses (non-allocated)			<u>8,329</u>
Results from operating activities			<u>(1,684)</u>
Finance costs			1,827
Finance income			<u>(191)</u>
Loss before income taxes			<u><u>(3,320)</u></u>

	For the three months ended		
	May 5, 2018		
	Canada	US	Consolidated
	\$	\$	\$
Sales	36,532	9,254	45,786
Cost of sales	17,816	5,278	23,094
Gross profit	18,716	3,976	22,692
Selling, general and administration expenses (allocated)	13,384	4,158	17,542
Impact of onerous contracts	(192)	(1,324)	(1,516)
Results from operating activities before corporate expenses	5,524	1,142	6,666
Selling, general and administration expenses (non-allocated)			8,370
Results from operating activities			(1,704)
Finance costs			79
Finance income			(237)
Loss before income taxes			(1,546)

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 \$6.

The Company's foreign exchange exposure is as follows:

	May 4, 2019 US\$	February 2, 2019 US\$
Cash	810	267
Accounts receivable	736	1,142
Accounts payable	1,667	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 May 4, 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 May 4, 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 May 4, 2019, the Company had \$35,491 in cash. In addition, the Company has a Revolving Facility of \$15,000, the full amount of which remained un-drawn as at May 4, 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, and receivables from other companies for sales of products, gift cards and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored.

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 May 4, 2019.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three-month periods ended May 4, 2019 and May 5, 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/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" 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/A 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 filed with the SEC on May 5, 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;
- Adverse publicity as a result of public disagreements with our shareholders;
- 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/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 Quarterly Report on Form 10-Q/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 Form 10-Q/A. 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/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 Form 10-Q/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.

Restatement of Condensed Interim Consolidated Financial Statements

We have restated our unaudited condensed interim consolidated financial statements for (i) the quarterly period ended May 4, 2019 and (ii) the quarterly period ended August 3, 2019, including applicable notes as reflected in this Form 10-Q/A, to reflect our restatement resulting from accounting errors identified in the assessment of impairment indicators upon completing the store impairment analysis under IAS 36, subsequent to the adoption of IFRS 16. Additionally upon further review, management determined that, pursuant to IFRS standards, its financial statements would be more relevant had they applied IAS 36 as of the date of initial adoption, instead of applying an available practical expedient. As a result, management elected to voluntarily change their accounting policy with respect to the initial transition elections under IFRS 16. For additional information about the restatement, please see the Explanatory Note immediately preceding Part I, Item 1 of this Form 10-Q/A and Note 3 to the interim condensed consolidated financial statements, “Changes in Accounting Policies and Restatement of Previously-Issued Financial Statements” in Part I, Item 1 of this Form 10-Q/A.

The following discussion and analysis of our financial condition and results of operations incorporates the restated amounts.

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 234 company-operated DAVIDsTEA stores as of May 4, 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;
- 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 including ROU assets 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 27 of this Quarterly Report on Form 10-Q/A.

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 28 of this Quarterly Report on Form 10-Q/A.

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 ROU assets, and certain non-recurring expenses. This measure also functions as a benchmark to evaluate our operating performance. It is reconciled to its nearest IFRS measure on page 28 of this Quarterly Report on Form 10-Q/A.

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 quarter 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 quarter 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		
	May 4, 2019 (Restated- Note 3)	May 4, 2019 Excluding impact of IFRS 16	May 5, 2018
Consolidated statement of loss data:			
Sales	\$ 44,265	\$ 44,265	\$ 45,786
Cost of sales	17,929	23,752	23,094
Gross profit	26,336	20,513	22,692
Selling, general and administration expenses	28,020	24,918	24,396
Results from operating activities	(1,684)	(4,405)	(1,704)
Finance costs	1,827	—	79
Finance income	(191)	(191)	(237)
Loss before income taxes	(3,320)	(4,214)	(1,546)
Provision for income tax recovery	—	—	(344)
Net loss	\$ (3,320)	\$ (4,214)	\$ (1,202)
Percentage of sales:			
Sales	100.0%	100.0%	100.0%
Cost of sales	40.5%	53.7%	50.4%
Gross profit	59.5%	46.3%	49.6%
Selling, general and administration expenses	63.3%	56.3%	53.3%
Results from operating activities	(3.8%)	(10.0%)	(3.7%)
Finance costs	4.1%	0.0%	0.2%
Finance income	(0.4%)	(0.4%)	(0.5%)
Loss before income taxes	(7.5%)	(9.5%)	(3.4%)
Provision for income tax recovery	0.0%	0.0%	(0.8%)
Net loss	(7.5%)	(9.5%)	(2.6%)
Other financial and operations data:			
Adjusted EBITDA ⁽¹⁾	\$ 3,269	\$ (2,554)	\$ (400)
Adjusted EBITDA as a percentage of sales	7.4%	(5.8%)	(0.9%)
Number of stores at end of period	234	234	240
Comparable sales decline for period ⁽²⁾	(6.1%)	(6.1%)	(10.6%)

(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		
	May 4, 2019	May 4, 2019 Excluding impact of IFRS 16	May 5, 2018
	(Restated- Note 3)		
Selling, general and administration expenses	\$ 28,020	\$ 24,918	\$ 24,396
Impact of onerous contracts (a)	—	—	1,516
Strategic review and proxy contest costs (b)	—	—	(794)
Adjusted selling, general and administration expenses	\$ 28,020	\$ 24,918	\$ 25,118

(a) 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.

(b) 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		
	May 4, 2019 (Restated- Note 3)	May 4, 2019 Excluding impact of IFRS 16	May 5, 2018
Results from operating activities	\$ (1,684)	\$ (4,405)	\$ (1,704)
Impact of onerous contracts (a)	—	—	(1,516)
Strategic review and proxy contest costs (b)	—	—	794
Adjusted results from operating activities	<u>\$ (1,684)</u>	<u>\$ (4,405)</u>	<u>\$ (2,426)</u>

(a) 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.

(b) 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		
	May 4, 2019 (Restated- Note 3)	May 4, 2019 Excluding impact of IFRS 16 ⁽¹⁾	May 5, 2018
Net loss	\$ (3,320)	\$ (4,214)	\$ (1,202)
Finance costs	1,827	—	79
Finance income	(191)	(191)	(237)
Depreciation and amortization	4,826	1,724	1,868
Recovery of income tax	—	—	(344)
EBITDA	<u>\$ 3,142</u>	<u>\$ (2,681)</u>	<u>\$ 164</u>
Additional adjustments :			
Stock-based compensation expense (a)	127	127	295
Impact of onerous contracts (b)	—	—	(1,516)
Deferred rent (c)	—	—	(137)
Strategic review and proxy contest costs (d)	—	—	794
Adjusted EBITDA	<u>\$ 3,269</u>	<u>\$ (2,554)</u>	<u>\$ (400)</u>

(1) Adjusted EBITDA for May 4, 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, IFRS 16 had a favourable impact of approximately \$5.8 million on adjusted EBITDA for May 4, 2019 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) 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.

(c) Represents the extent to which our annual rent expense has been above or below our cash rent payments.

(d) 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		
	May 4, 2019	May 4, 2019 Excluding impact of IFRS 16	May 5, 2018
	(Restated- Note 3)		
Net loss	\$ (3,320)	\$ (4,214)	\$ (1,202)
Impact of onerous contracts (a)	—	—	(1,516)
Strategic review and proxy contest costs (b)	—	—	794
Adjusted net loss	\$ (3,320)	\$ (4,214)	\$ (1,924)

(a) 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.

(b) 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		
	May 4, 2019	May 4, 2019 Excluding impact of IFRS 16	May 5, 2018
	(Restated- Note 3)		
Weighted average number of shares outstanding, fully diluted	26,019,594	26,019,594	25,893,327
Adjusted weighted average number of shares outstanding, fully diluted	26,019,594	26,019,594	25,893,327
Net loss	\$ (3,320)	\$ (4,214)	\$ (1,202)
Adjusted net loss	\$ (3,320)	\$ (4,214)	\$ (1,924)
Net loss per share, fully diluted	\$ (0.13)	\$ (0.16)	\$ (0.05)
Adjusted net loss per share, fully diluted	\$ (0.13)	\$ (0.16)	\$ (0.07)

Three Months Ended May 4, 2019 restated compared to Three Months Ended May 5, 2018

Sales. Sales for the three months ended May 4, 2019 decreased 3.3%, or \$1.5 million, to \$44.3 million from \$45.8 million in the prior year quarter. Sales from our e-commerce and wholesale channels increased \$0.6 million, or by 9.3%, 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 \$2.5 million and a decline of \$2.3 million, or 6.1%, in comparable store sales.

Gross Profit. Gross profit increased by 16.1%, or \$3.6 million, to \$26.3 million for the three months ended May 4, 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 \$2.2 million to \$20.5 million, representing a gross profit of 46.3% for the three months ended May 4, 2019, a decrease of 3.3% 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”) increased by 14.9%, or \$3.6 million, to \$28.0 million in the three months ended May 4, 2019 from the prior year quarter. Under IFRS 16, SG&A includes \$3.1 million of depreciation in connection with our right-of-use assets. Excluding the impact of IFRS 16, SG&A would have amounted to \$24.9 million, an increase of \$0.5 million, or 2%, from the prior year quarter and as a percentage of sales would have amounted to 56.3% representing an increase of 3.0% over the prior year quarter. Excluding the impact of IFRS 16 for the three months ended May 4, 2019 and the impact of onerous contracts and costs related to the strategic review and proxy contest for the three months ended May 5, 2018, Adjusted SG&A decreased by \$0.2 million for the three months ended May 4, 2019. As a percentage of sales, Adjusted SG&A increased to 56.3% from 54.9% due to the deleveraging of fixed costs as a result of negative comparable store sales.

Results from Operating Activities. Loss from operating activities remained stable at \$1.7 million compared from the prior year quarter. Excluding the impact of IFRS 16, loss from operating activities would have amounted to \$4.4 million, an increase of \$2.7 million from the prior year quarter. This is explained by a decline in gross profit of \$2.2 million resulting from a decline in sales of \$1.5 million, an increase in cost of sales of \$0.7 million and an increase in SG&A of \$0.5 million. Adjusted results from operating activities, which excludes any impact from onerous contracts, and costs related to the strategic review and proxy contest, was \$4.4 million compared to \$2.4 million in the prior year quarter.

Finance Costs. Finance costs amounted to \$1.8 million in the three months ended May 4, 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 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 \$3.1 million in the quarter ended May 4, 2019 compared to \$0.2 million in the prior year quarter. Excluding the impact of IFRS 16, EBITDA would have amounted to a negative \$2.7 million, representing a decrease of \$2.8 million over the prior year quarter. Adjusted EBITDA for the quarter amounted to \$3.3 million compared to a negative \$0.4 million in the prior year quarter. Excluding the impact of IFRS 16 and stock-based compensation for the three months ended May 4, 2019 and the impact of stock-based compensation, onerous contracts, deferred rent and costs related to the strategic review and proxy contest for the three months ended May 5, 2018, Adjusted EBITDA decreased by \$2.2 million from the prior year quarter.

Net Loss. Net loss was \$3.3 million in the quarter ended May 4, 2019 compared to a net loss of \$1.2 million in the prior year quarter. Excluding the impact of IFRS 16, Net loss would have amounted to \$4.2 million, representing an increase of \$3.0 million in net loss over the prior year quarter. Adjusted net loss, which excludes the impact from onerous contracts and costs related to strategic review and proxy contest, was \$3.3 million compared to \$1.9 million in the prior year quarter.

Fully diluted loss per common share. Fully diluted loss per common share was \$0.13 compared to \$0.05 in the first 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 \$0.13 per share compared to \$0.07 per share.

Liquidity and Capital Resources

As at May 4, 2019 we had \$35.5 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 \$62,446 and \$65,842, for the periods ended May 4, 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		
	May 4, 2019	May 4, 2019 Excluding impact of IFRS 16	May 5, 2018
Cash flows provided by (used in) :			
Operating activities	\$ 360	\$ (5,463)	\$ (7,106)
Financing activities	(5,823)	—	—
Investing activities	(1,120)	(1,120)	(2,510)
Decrease in cash	\$ (6,583)	\$ (6,583)	\$ (9,616)

Cash Flows Used in Operating Activities. Net cash provided by operating activities amounted to \$0.4 million for the three months ended May 4, 2019 from net cash used of \$7.1 million for the three months ended May 5, 2018. Excluding the impact of IFRS 16, net cash used in operating activities amounted to \$5.5 million, an improvement of \$1.6 million from the prior year quarter. Net change in other non-cash working capital balances related to operations improved by \$5.7 million primarily from reduction in accounts receivables, inventories and prepaids, and an increase in accounts payables and accrued liabilities, offset by an increase of \$4.1 million used in operating activities resulting primarily from lower results from operations.

Cash Flows Used in Financing Activities. Net cash flows used in financing activities was \$5.8 million for the three months ended May 4, 2019, compared to \$nil for the three months ended May 5, 2018. Excluding the impact of IFRS 16, net cash used in financing activities amounted to \$nil in both periods.

Cash Flows Used in Investing Activities. Capital expenditures decreased by \$1.4 million, to \$1.1 million for the three months ended May 4, 2019, from \$2.5 million for the three months ended May 5, 2018. This decrease was primarily due to lower investment in both leasehold improvements as well as software.

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 May 4, 2019, the Company did not have any borrowings under the Amended Revolving Facility.

As at May 4, 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 May 4, 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 May 4, 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 not effective.

During the course of the Company’s financial statement close process for the quarter ended November 2, 2019, accounting errors were identified in the assessment of impairment indicators upon completing the store impairment analysis under IAS 36, *Impairment of Assets* (“IAS 36”), subsequent to the adoption of IFRS 16, *Leases* (“IFRS 16”). When appropriately performing the assessment of impairment indicators with respect to the right-of-use assets (“ROU assets”) as at May 4, 2019 and August 3, 2019, impairment charges of \$13,924 and \$5,025 respectively were identified that would have been required to be recognized in the respective periods under the Company’s accounting policy for transition to IFRS 16, which included the use of the practical expedient for assessing impairment. Upon further review, the Company also determined that, pursuant to IFRS standards, its financial statements would be more relevant had they applied IAS 36 to assess impairment of ROU assets as of the date of initial adoption, instead of applying the available practical expedient. Accordingly, the Company elected to voluntarily change its accounting policy to perform an impairment assessment in accordance with IAS 36 at the date of transition to IFRS 16. The Company believes this change is more relevant because it more faithfully depicts the performance of the Company. Subsequent to the retrospective application of the change in accounting policy, the impairment charges were nil and \$5,025 for the quarters ended May 4, 2019 and August 3, 2019, respectively.

As a result of the aforementioned analysis, a material weakness in the design of the monitoring of impairment triggers upon completing the store impairment analysis under IAS 36, subsequent to the adoption of IFRS 16 was identified. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim statements will not be prevented or detected on a timely basis.

Certain remedial efforts were undertaken during the third quarter financial statement close process that resulted in effective design of the monitoring of impairment triggers under IAS 36 subsequent to the adoption of IFRS 16; however, we are unable to conclude that this control was operationally effective due to lack of sufficient extent of samples for testing.

Changes in Internal Control over Financial Reporting

In light of the restatement, our Chief Executive Officer and Chief Financial Officer have reassessed their evaluation of the effectiveness of the design and operation of its disclosure controls over financial reporting as of May 4, 2019 and concluded that the Company did not maintain effective disclosure control and procedures due to a material weakness in the Company’s internal control over financial reporting that existed at that date in the monitoring of impairment triggers upon completing a store impairment analysis under IAS 36 subsequent to the adoption of IFRS 16.

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

Except as set forth below, 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.

Risks Related to Material Weaknesses In Internal Control Over Financial Reporting

We have identified material weaknesses in our internal control over financial reporting which have resulted in material misstatements in our previously issued financial statements. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to further restate our financial results, which could adversely affect our stock price and result in an inability to maintain compliance with applicable stock exchange listing requirements.

As discussed in Part I, Item 4. "Controls and Procedures," we have concluded that there were matters that constituted material weaknesses in internal control over financial reporting. We have also restated our financial statements as discussed in Note 3 to these unaudited condensed interim consolidated financial statements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. The existence of this issue could adversely affect us, our reputation or investors' perceptions of us. We plan to take additional measures to remediate the underlying causes of the material weaknesses. However, we have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the material weaknesses, we may determine to implement further measures to address the control deficiencies. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight.

Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our measures may not prove to be successful in remediating the material weaknesses. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to further restate our financial results. In addition, if we are unable to successfully remediate the material weaknesses in our internal controls or if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

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:

18	Preferability Letter
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: December 20, 2019

By: /s/ Herschel Segal

Name: Herschel Segal

Title: Chairman and Interim Chief Executive Officer

20 December 2019

To the Board of Directors of

DAVIDsTEA Inc.
5430, Ferrier St., Town of Mount-Royal,
Quebec, Canada, H4P 1M2
Ladies and Gentlemen:

Note 3 of the Notes to the condensed interim consolidated financial statements of DAVIDsTEA Inc. (the “Company”) included in its Forms 10-Q/A for the three-month period ended May 4, 2019, describe a change in the method of accounting for the measurement of right-of-use assets upon initial adoption of IFRS 16, *Leases* on February 3, 2019. The Company previously applied the practical expedient which permitted the Company to rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. The Company changed its accounting policy to instead apply IAS 36, *Impairment of Assets* to right-of-use assets at the date of initial application, removing the use of the practical expedient. We conclude that such change in the method of accounting is an acceptable alternative method which, based on your business judgment to make this change and for the stated reason, is preferable in your circumstances.

We have not conducted an audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) of any financial statements of the Company as of any date or for any period subsequent to February 2, 2019, and therefore we do not express any opinion on any financial statements of DAVIDsTEA Inc. subsequent to that date.

Very truly yours,

/s/ Ernst & Young LLP
Montreal, Canada

**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/A for the fiscal quarter ended May 4, 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: December 20, 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/A for the fiscal quarter ended May 4, 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: December 20, 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/A for the period ended May 4, 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: December 20, 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/A for the period ended May 4, 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: December 20, 2019

/s/ Frank Zitella

Frank Zitella

Chief Financial Officer and Chief Operating Officer