
FORM 10-Q

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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

For the quarterly period ended April 30, 2016.

OR

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

For the transition period from _____ to _____
Commission file number 001-37404

DAVIDsTEA Inc.

(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction of
incorporation or organization)

98-1048842
(I.R.S. Employer
Identification No.)

5430 Ferrier
Mount-Royal, Québec, Canada, H4P 1M2
(Address of principal executive offices) (zip code)
(888) 873-0006
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 June 7, 2016, 24,507,558 common shares of the registrant were outstanding.

DAVIDsTEA Inc.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	27
Item 1A. Risk Factors	27
Item 2. Unregistered Sales of Equity Securities	27
Item 3. Defaults Upon Senior Securities	27
Item 4. Mine Safety Disclosures	27
Item 5. Other Information	27
Item 6. Exhibits	27

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

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

On June 3, 2016, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was US\$1.00 = \$1.2947.

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 April 30, 2016 \$	As at January 30, 2016 \$
ASSETS		
Current		
Cash	69,068	72,514
Accounts and other receivables	2,463	2,702
Inventories [Note 5]	17,554	17,767
Income tax receivable	—	605
Prepaid expenses and deposits	6,454	4,493
Derivative financial instruments [Note 15]	—	3,442
Total current assets	95,539	101,523
Property and equipment	46,976	47,330
Intangible assets	2,221	2,242
Deferred income tax assets [Note 10]	8,816	7,877
Total assets	153,552	158,972
LIABILITIES AND EQUITY		
Current		
Trade and other payables	12,052	14,435
Deferred revenue	3,326	3,762
Income taxes payable	13	62
Current portion of provisions [Note 6]	512	512
Derivative financial instruments [Note 15]	1,723	—
Total current liabilities	17,626	18,771
Deferred rent and lease inducements	6,075	6,002
Provisions [Note 6]	91	162
Total liabilities	23,792	24,935
Equity		
Share capital [Note 9]	259,889	259,205
Contributed surplus	7,024	7,094
Deficit	(137,240)	(138,465)
Accumulated other comprehensive income	87	6,203
Total equity	129,760	134,037
	153,552	158,972

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 information]

		For the three months ended	
		April 30, 2016	May 2, 2015
		\$	\$
Sales	[Note 14]	44,469	35,844
Cost of sales		21,314	16,755
Gross profit		23,155	19,089
Selling, general and administration expenses	[Note 11]	21,119	16,991
Stock-based compensation related to cashless exercise		—	4,052
Results from operating activities		2,036	(1,954)
Finance costs		17	792
Finance income		(121)	(51)
Accretion of preferred shares	[Note 8]	—	314
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	[Note 8]	—	90,705
Income (loss) before income taxes		2,140	(93,714)
Provision for income tax (recovery)	[Note 10]	626	(488)
Net income (loss)		1,514	(93,226)
Other comprehensive loss			
Items to be reclassified subsequently to income:			
Unrealized net loss on forward exchange contracts	[Note 15]	(4,197)	—
Realized net gain on forward exchange contracts reclassified to inventory		(968)	—
Provision for income tax recovery on comprehensive loss		1,371	—
Cumulative translation adjustment		(2,322)	(574)
Other comprehensive loss, net of tax		(6,116)	(574)
Total comprehensive loss		(4,602)	(93,800)
Net income (loss) per share:			
Basic	[Note 12]	0.06	(7.73)
Fully diluted	[Note 12]	0.06	(7.73)
Weighted average number of shares outstanding			
— basic	[Note 12]	24,134,285	12,057,474
— fully diluted	[Note 12]	25,892,598	12,057,474

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	
	April 30, 2016	May 2, 2015
	\$	\$
OPERATING ACTIVITIES		
Net income (loss)	1,514	(93,226)
Items not affecting cash:		
Depreciation of property and equipment	1,787	1,298
Amortization of intangible assets	161	123
Deferred rent	280	198
Provision (recovery) for onerous contracts	—	(74)
Stock-based compensation expense	316	325
Amortization of financing fees	18	166
Accretion of preferred shares	—	314
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	90,705
Deferred income taxes (recovered)	(30)	15
	<u>4,046</u>	<u>(156)</u>
Net change in other non-cash working capital balances related to operations	(4,834)	(6,501)
Cash flows related to operating activities	(788)	(6,657)
FINANCING ACTIVITIES		
Repayment of finance lease obligations	—	(552)
Proceeds from issuance of long-term debt	—	9,996
Repayment of long-term debt	—	(10,014)
Proceeds from issuance of common shares pursuant to exercise of stock options	344	—
IPO-related expenses	—	(552)
Financing fees	—	(119)
Cash flows related to financing activities	344	(1,241)
INVESTING ACTIVITIES		
Additions to property and equipment	(2,846)	(1,840)
Additions to intangible assets	(156)	(268)
Cash flows related to investing activities	(3,002)	(2,108)
Decrease in cash during the period	(3,446)	(10,006)
Cash, beginning of period	72,514	19,784
Cash, end of period	69,068	9,778
Supplemental Information		
Cash paid for:		
Interest	—	273
Income taxes (classified as operating activity)	577	811
Cash received for:		
Interest	120	51
Income taxes (classified as operating activity)	344	—

See accompanying notes

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF EQUITY (DEFICIENCY)

[Unaudited and in thousands of Canadian dollars]

	Share Capital \$	Contributed Surplus \$	Deficit \$	Accumulated Other Comprehensive Income			Total Equity (Deficiency) \$
				Accumulated Derivative Financial Instrument Adjustment \$	Accumulated Foreign Currency Translation Adjustment \$	Accumulated Other Comprehensive Income \$	
Balance, January 31, 2015	385	1,412	(4,129)	—	2,286	2,286	(46)
Net loss for the three months ended May 2, 2015	—	—	(93,226)	—	—	—	(93,226)
Other comprehensive loss	—	—	—	—	(574)	(574)	(574)
Total comprehensive loss	—	—	(93,226)	—	(574)	(574)	(93,800)
Issuance of subordinate voting shares upon exercise of options	125	(125)	—	—	—	—	—
Stock-based compensation	—	325	—	—	—	—	325
Balance, May 2, 2015	510	1,612	(97,355)	—	1,712	1,712	(93,521)
Balance, January 30, 2016	259,205	7,094	(138,465)	2,529	3,674	6,203	134,037
Net income for the three months ended April 30, 2016	—	—	1,514	—	—	—	1,514
Other comprehensive loss	—	—	—	(3,794)	(2,322)	(6,116)	(6,116)
Total comprehensive loss	—	—	1,514	(3,794)	(2,322)	(6,116)	(4,602)
Proceeds on issuance of common shares	470	(126)	—	—	—	—	344
Common shares issued on vesting of restricted stock units	214	(417)	(289)	—	—	—	(492)
Stock-based compensation expense	—	316	—	—	—	—	316
Income tax impact associated with stock options	—	157	—	—	—	—	157
Balance, April 30, 2016	259,889	7,024	(137,240)	(1,265)	1,352	87	129,760

See accompanying notes

DAVIDsTEA Inc.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended April 30, 2016 and May 2, 2015 [Unaudited]

[Amounts in thousands of Canadian dollars except per share amounts and where otherwise indicated]

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 April 30, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on June 8, 2016. 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 January 30, 2016, 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.

On May 12, 2015, the Company’s Board of Directors approved a 1.6-for-1 split on common and Class AA common shares, which was effective May 21, 2015. The accompanying financial statements have been adjusted to reflect the forward split. As a result, the historical per share amounts and the number of shares in these unaudited condensed interim consolidated financial statements have been retroactively adjusted to reflect this change.

Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, DAVIDsTEA (USA) Inc. The unaudited condensed interim financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated. The Company has no interests in special purpose entities.

Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for the following material items:

- Derivative financial instruments are measured at fair value; and
- Provisions for onerous contracts are measured at the present value of the expenditures expected to settle the obligations.

Functional and presentation currency

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

Comparative figures

The Company has reclassified the comparative figure related to stock-based compensation related to cashless exercise on the statement of income (loss) to make selling, general and administration expenses comparable.

3. SIGNIFICANT ACCOUNTING POLICIES

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 January 30, 2016. During the three-month period ended April 30, 2016, we implemented the following new accounting standard on the presentation of financial statements.

IAS 1, "Presentation of Financial Statements" ("IAS 1"), was modified in December 2014 when the IASB issued amendments to clarify materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the consolidated balance sheets and consolidated statements of income (loss) and comprehensive income (loss). These amendments shall be applied to fiscal years beginning on or after January 1, 2016. The Company has adopted this accounting standard effective on January 31, 2016, the first day of its newest fiscal year. The adoption of IAS 1 has resulted in no impact to the consolidated financial statements.

There were no other new accounting standards implemented during the three-month period ended April 30, 2016.

Information on significant new accounting standards and amendments issued but not yet adopted is described below.

IFRS 9, "Financial Instruments" ("IFRS 9"), partially replaces the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This standard is the first step in the project to replace IAS 39. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39. These changes are applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replaces IAS 11, "Construction Contracts", and IAS 18, "Revenue", as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

IFRS 16, “Leases” (“IFRS 16”) replaces IAS 17, “Leases”. This standard provides a single model for leases abolishing the current distinction between finance and operating leases, with most leases being recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low value assets. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is currently assessing the impact of adopting this standard on our consolidated financial statements and related note disclosures.

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 January 30, 2016.

5. INVENTORIES

	April 30, 2016	January 30, 2016
	\$	\$
Finished goods	14,318	12,903
Goods in transit	1,886	3,790
Packaging	1,350	1,074
	<u>17,554</u>	<u>17,767</u>

For the three-month period ended April 30, 2016, \$256 [May 2, 2015 —\$151] was written-down as a result of the net realizable value being lower than the cost of the inventory. No inventory write-downs recognized in previous years were reversed in the period.

6. PROVISIONS

	For the three months ended April 30, 2016	For the year ended January 30, 2016
	\$	\$
Opening balance	674	874
Amortized during the period	—	(265)
Cumulative translation adjustment	(71)	65
Ending balance	603	674
Less: Current portion	(512)	(512)
Long-term portion of provisions	<u>91</u>	<u>162</u>

Provisions for onerous contracts have been recognized in respect of store leases where the unavoidable costs of meeting the obligations under the lease agreements exceed the economic benefits expected to be received from the contract. The unavoidable costs reflect the present value of the lower of the expected cost of terminating the contract and the expected net cost of operating under the contract.

7. REVOLVING FACILITY

The Company has a credit agreement (the “Credit Agreement”) with the Bank of Montreal (“BMO”). The Credit Agreement provides for a revolving term facility, maturing April 24, 2018, in the principal amount of \$20,000 (which the Company refers to as the “Revolving Facility”) or the equivalent amount in U.S. dollars, repayable at any time. The Credit Agreement also provides for an accordion feature whereby the Company may, at any time prior to maturity and with permission from BMO, request an increase to the Revolving Facility by an amount not greater than \$10,000.

The credit facility contains a number of financial and non-financial 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 cannot make any dividend payments. As at April 30, 2016, the Company is in compliance with these covenants.

As at April 30, 2016 and January 30, 2016, the Company did not have any borrowings on the Revolving Facility.

8. MANDATORILY REDEEMABLE PREFERENCE SHARES

Prior to the Company’s initial public offering (“IPO”) on June 10, 2015, the Series A, A-1, and A-2 redeemable preferred shares liability was being accreted to their nominal value and the financial derivative liability embedded in the preferred shares was being measured at fair value with all changes recognized immediately in income (loss). For the three-month period ended May 2, 2015, the accretion on preferred shares was \$314 and the changes in the carrying value of the financial derivative liability embedded in preferred shares amounted to \$90,705. The amounts were recorded as a loss in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) for the three months ended May 2, 2015.

On June 10, 2015, immediately prior to the completion of the Company’s IPO, the financial derivative liability embedded in preferred shares was increased to reflect the fair market value of the IPO common shares. Subsequently, all of the Series A, A-1 and A-2 preferred shares were converted into common shares and the financial derivative liability embedded in the Series A, A-1 and A-2 preferred shares was converted into equity. On June 10, 2015, immediately following the IPO, the Company amended its articles to remove the Series A, A-1 and A-2 preferred shares from its authorized capital.

9. SHARE CAPITAL

Authorized

An unlimited number of common shares.

Issued and outstanding

	April 30, 2016	January 30, 2016
	\$	\$
24,462,385 Common shares [January 30, 2016 - 24,037,472 shares]	<u>259,889</u>	<u>259,205</u>
	<u>259,889</u>	<u>259,205</u>

During the three-month period ended April 30, 2016, 394,515 stock options were exercised for common shares. The carrying value of common shares includes \$126 [May 2, 2015 — \$125] which corresponds to a reduction in contributed surplus representing the value of accumulated stock-based compensation expense associated to options exercised during the period. In addition, during the three-month period ended April 30, 2016, 30,398 of common shares were issued in relation to the vesting of restricted stock units (“RSU”), resulting in an increase in share capital of \$214 [May 2, 2015 – nil].

Stock-based compensation

As at April 30, 2016, 1,017,620 common shares remain available for issuance under the 2015 Omnibus Plan.

The weighted average fair value of options granted of \$3.65 for the three-month period ended April 30, 2016 [for the three-month period ended May 2, 2015 — \$6.15] was estimated using the Black Scholes option pricing model, using the following assumptions:

	For the three months ended April 30, 2016	For the three months ended May 2, 2015
Risk-free interest rate	1.23 %	1.15 %
Expected volatility	29.8 %	31.0 %
Expected option life	4.0 years	3.65 years
Expected dividend yield	0 %	0 %
Exercise price	\$ 14.39	\$ 15.64

Expected volatility was estimated using historical volatility of similar companies whose share prices were publicly available.

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 April 30, 2016		For the three months ended May 2, 2015	
	Options outstanding #	Weighted average exercise price \$	Options outstanding #	Weighted average exercise price \$
Outstanding, beginning of period	2,146,880	3.04	2,905,648	2.06
Issued	131,500	14.39	12,000	15.64
Exercised	(394,515)	0.87	(322,739)	0.77
Cancelled/expired	—	—	(275,529)	0.77
Forfeitures	(51,322)	5.94	(40,000)	2.67
Outstanding, end of period	1,832,543	4.24	2,279,380	2.82
Exercisable, end of period	910,283	2.85	780,500	1.22

The weighted average share price at the date of exercise for stock options exercised during the three-month period ended April 30, 2016 was \$14.50 [for three three-month period ended May 2, 2015 — \$15.64].

The following table summarizes information about the Company's RSU.

	For the three months ended April 30, 2016		For the three months ended May 2, 2015	
	RSUs outstanding #	Weighted average fair value per unit (1) \$	RSUs outstanding #	Weighted average fair value per unit (1) \$
Outstanding, beginning of period	252,720	7.39	—	—
Granted	96,520	14.39	235,120	7.07
Forfeitures	(20,310)	7.07	—	—
Vested	(59,050)	7.07	—	—
Outstanding, end of period	269,880	9.99	235,120	7.07

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

During the three-month period ended April 30, 2016, the Company recognized a stock-based compensation expense of \$316 [May 2, 2015 — \$325] and a stock-based compensation expense related to cashless exercise of options by former employees of nil [May 2, 2015 — \$4,052].

10. INCOME TAXES

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

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

	For the three months ended		For the three months ended	
	April 30, 2016	May 2, 2015	April 30, 2016	May 2, 2015
	%	\$	%	\$
Provision for income tax (recovery) — statutory rate	26.5	568	26.5	(24,880)
Loss from embedded derivative and accretion of Series A, A-1, and A-2 preferred shares	—	—	(25.8)	24,165
Other non-deductible items	3.5	74	(0.2)	207
Other	(0.7)	(16)	—	20
Provision for income tax (recovery) — effective tax rate	29.3	626	0.5	(488)

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

	For the three months ended	
	April 30, 2016	May 2, 2015
	\$	\$
Income tax provision (recovery)		
Current	793	(365)
Deferred	(167)	(123)
	626	(488)

As at April 30, 2016, the Company's U.S. subsidiary has accumulated losses amounting to US\$10.6 million [January 30, 2016 — US\$9.7 million], the tax benefit of which has been fully recorded as a deferred income tax asset, which expire during the years 2033 to 2036.

11. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended	
	April 30, 2016	May 2, 2015
	\$	\$
Wages, salaries and employee benefits	13,327	11,327
Depreciation of property and equipment	1,787	1,298
Amortization of intangible assets	161	123
Provision (recovery) for onerous contracts	—	(74)
Stock-based compensation	316	325
Other selling, general and administration	5,528	3,992
	21,119	16,991

12. 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, accretion interest on the mandatorily redeemable preference shares and any gain or loss from embedded derivative on preferred shares) 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:

	<u>For the three months ended</u>	
	<u>April 30, 2016</u>	<u>May 2, 2015</u>
	\$	\$
Net income (loss) for basic EPS	1,514	(93,226)
Weighted average number of shares outstanding — basic	24,134,285	12,057,474
Restricted stock units	213,275	—
Options	1,545,038	—
Weighted average number of shares — fully diluted	25,892,598	12,057,474

As a result of the net loss during the three-month period ended May 2, 2015, the stock options and restricted stock units disclosed in Note 9 and the Series A, Series A-1 and Series A-2 preferred shares disclosed in Note 8 are anti-dilutive.

13. RELATED PARTY DISCLOSURES

For the three-month period ended May 2, 2015, interest was incurred on the loan from the controlling shareholder amounting to \$33 and dividends on Series A, A-1 and A-2 preferred shares were accrued for \$322. As a result of the repayment of the loan from the controlling shareholder and the conversion of the Series A, A-1 and A-2 preferred shares during the year ended January 30, 2016, there were no such amounts for the three-month period ended April 30, 2016.

14. 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) makes decisions about resources to be allocated to the segments and assesses performance, and for which discrete financial information is available.

The Company derives revenue from the following products:

	For the three months ended	
	April 30, 2016	May 2, 2015
	\$	\$
Tea	30,147	24,644
Tea accessories	9,893	7,242
Food and beverages	4,429	3,958
	<u>44,469</u>	<u>35,844</u>

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

	April 30, 2016	January 30, 2016
	\$	\$
Canada	35,747	35,915
US	13,450	13,657
Total	<u>49,197</u>	<u>49,572</u>

Gross profit per country is used to measure performance because management believes this information is the most relevant in evaluating results. Gross profit per country is as follows:

	For the three months ended		
	April 30, 2016		
	Canada	US	Consolidated
	\$	\$	\$
Sales	36,959	7,510	44,469
Cost of sales	17,074	4,240	21,314
Gross profit	19,885	3,270	23,155
Selling, general and administration expenses			21,119
Results from operating activities			2,036
Finance costs			17
Finance income			(121)
Income before income taxes			<u>2,140</u>

	For the three months ended		
	May 2, 2015		
	Canada	US	Consolidated
	\$	\$	\$
Sales	31,803	4,041	35,844
Cost of sales	14,412	2,343	16,755
Gross profit	17,391	1,698	19,089
Selling, general and administration expenses			16,991
Stock-based compensation related to cashless exercise			4,052
Results from operating activities			(1,954)
Finance costs			792
Finance income			(51)
Accretion of preferred shares			314
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares			90,705
Loss before income taxes			<u>(93,714)</u>

15. 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 income (loss) in the amount of \$56.

The Company's foreign exchange exposure is as follows:

	April 30, 2016 US\$	January 30, 2016 US\$
Cash	661	464
Accounts receivable	1,279	1,126
Accounts payable	3,051	2,092

The Company's U.S. subsidiary's transactions are denominated in U.S. dollars.

In order to protect itself from the risk of losses should the value of the Canadian dollar decline in relation to the U.S. dollar, the Company has entered into forward contracts to fix the exchange rate of its expected U.S. dollar inventory purchasing requirements, through April 2017. A forward foreign exchange contract is a contractual agreement to buy a specific currency at a specific price and date in the future. The Company designated the forward contracts as cash flow hedging instruments under International Accounting Standard 39. This has resulted in mark-to-market foreign exchange adjustments, for qualifying hedged instruments, being recorded as a component of other comprehensive income for the three-month period ended April 30, 2016. As at April 30, 2016, the designated portion of these hedges was considered effective.

The nominal and contract values of foreign exchange contracts outstanding as at April 30, 2016 are as follows:

	Range of contractual exchange rate	Nominal value US\$	Nominal value C\$	Term	Unrealized loss C\$
Purchase contracts					
U.S. dollar	1.3060	26,350	34,413	May 2016 to October 2016	1,364
U.S. dollar	1.2696 - 1.2772	19,100	24,314	November 2016 to April 2017	359
		<u>45,450</u>	<u>58,727</u>		<u>1,723</u>

The Company did not use any forward contracts to manage foreign exchange risk for the three-month period ended May 2, 2015, but rather satisfied its U.S. dollar requirements primarily through spot rate purchases.

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 and liabilities with variable interest rates and consist of cash. The Company is exposed to cash flow risk on its Revolving Facility which bears interest at variable interest rates (note 7). As at April 30, 2016, 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 April 30, 2016, the Company had \$69,068 in cash. In addition, as outlined in note 7, the Company has a Revolving Facility of \$20,000, of which nil was drawn as at April 30, 2016. The Revolving Facility also provides for an accordion feature whereby the Company may, at any time prior to maturity, and with the permission of BMO, request an increase to the Revolving Facility by an amount not greater than \$10,000.

The Company expects to finance its growth in store base and its store renovations through cash flows from operations, the Revolving Facility (note 7) 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 and derivative financial instruments. 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. The disclosures in the "Financial instruments" section of note 3 of the consolidated financial statements for the year ended January 30, 2016 describe how the categories of financial instruments are measured and how income and expenses, including fair value remeasurement gains and losses, are recognized. 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.

Reconciliation of Level 3 fair values

Changes in fair value of Level 3 financial instruments were as follows, for the three-month period ended April 30, 2016 and for the year ended January 30, 2016:

	Fair value of Level 3 financial instruments	
	April 30, 2016	January 30, 2016
	\$	\$
Balance, beginning of the period	—	16,427
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	140,874
Less: conversion of Series A, A-1 and A-2 preferred shares to common shares	—	(157,301)
Balance, end of period	—	—

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

Certain statements contained herein 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 and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, new store opening projections, use of cash and operating and capital expenditures, impact of new accounting pronouncements, impact of improvements to internal control and financial reporting. These risks and uncertainties include, but are not limited to the risks described under the section entitled "Risk Factors" in our Annual Report on Form 10-K dated April 12, 2016 and filed on April 13, 2016. Forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-Q, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this Form 10-Q or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Accounting Periods

All references to "Fiscal 2016" are to the Company's fiscal year ending January 28, 2017. All references to "Fiscal 2015" are to the Company's fiscal year ended January 30, 2016. All references to "Fiscal 2014" are to the Company's fiscal year ended January 31, 2015.

The Company's fiscal year ends on the last Saturday in January. The years ending January 28, 2017 and January 30, 2016 cover a 52-week period. The year ended January 31, 2015 covers a 53-week fiscal period.

Overview

We are a fast-growing branded 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 198 company-operated DAVIDsTEA stores as of April 30, 2016, and our website, 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 replicate our store experience online by engaging users with rich content. We strive to make tea a multi-sensory experience 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.

First Quarter 2016 Highlights

Compared to the first quarter of Fiscal 2015, we grew our sales from \$35.8 million to \$44.5 million, representing growth of 24.3% over the prior year. We added 5 new stores, increasing our store base from 193 stores as of January 30, 2016 to 198 stores as of April 30, 2016. Our Adjusted EBITDA increased from \$4.0 million to \$4.6 million. Our net cash flows used in operating activities decreased from \$(6.7) million to \$(0.8) million. We believe we can continue to deliver strong total sales growth driven by adding new stores and achieving positive comparable sales, which

includes sales on our e-commerce site. We also believe that our strong focus on operating efficiencies and leveraging our fixed costs will result in increased Adjusted EBITDA.

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 and e-commerce site. 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. Purchases of our products can be impacted by 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.

Comparable Sales. Comparable sales refer to period-over-period comparison information for comparable stores and e-commerce. 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 and Away From Home (“AFH”) sales. As we pursue our growth strategy, we expect that a significant percentage of our sales will continue to come from non-comparable sales.

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

Selling, General and Administration Expenses. Selling, general and administration expenses consist of store operating expenses and other general and administration expenses, including store impairments and provision for onerous contracts. Store operating expenses consist of all store expenses excluding occupancy related costs (which are included in costs of sales). General and administration costs consist of salaries and other payroll costs, travel, professional fees, stock compensation, marketing expenses, information technology and other operating costs.

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

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

Finance Costs. Finance costs consists of cash and imputed non-cash charges related to our credit facility, long-term debt, finance lease obligations, the loan from the controlling shareholder and the Series A, A-1 and A-2 preferred shares.

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, non-cash compensation expense, costs related to onerous contracts or contracts where we expect the costs of the obligations to exceed the economic benefit, and certain non-recurring expenses. This measure also functions as a benchmark to evaluate our operating performance. It is reconciled to its nearest GAAP measure on page 22 of this Quarterly Report on Form 10-Q.

Selected Operating and Financial Highlights

Results of Operations

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

	For the three months ended	
	April 30, 2016	May 2, 2015
	(unaudited)	(unaudited)
Consolidated statement of income (loss) data:		
Sales	\$ 44,469	\$ 35,844
Cost of sales	21,314	16,755
Gross profit	23,155	19,089
Selling, general and administration expenses	21,119	16,991
Stock-based compensation related to cashless exercise	—	4,052
Results from operating activities	2,036	(1,954)
Finance costs	17	792
Finance income	(121)	(51)
Accretion of preferred shares	—	314
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	90,705
Income (loss) before income taxes	2,140	(93,714)
Provision for income tax (recovery)	626	(488)
Net income (loss)	\$ 1,514	\$ (93,226)
Percentage of sales:		
Sales	100.0%	100.0%
Cost of sales	47.9%	46.7%
Gross profit	52.1%	53.3%
Selling, general and administration expenses	47.5%	47.4%
Stock-based compensation related to cashless exercise	—	11.3%
Results from operating activities	4.6%	(5.4%)
Finance costs	0.0%	2.2%
Finance income	(0.3%)	(0.1%)
Accretion of preferred shares	—	0.9%
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	253.1%
Income (loss) before income taxes	4.8%	(261.5%)
Provision for income tax (recovery)	1.4%	(1.4%)
Net income (loss)	3.4%	(260.1%)
Other financial and operations data :		
Adjusted EBITDA (1)	\$ 4,580	\$ 3,968
Adjusted EBITDA as a percentage of sales	10.3%	11.1%
Number of stores at end of period	198	161
Comparable sales growth for period (2)	4.9%	6.3%

(1) For a reconciliation of Adjusted EBITDA to net income see “—Non-IFRS Metrics” below.

(2) Comparable sales refer to period-over-period comparison information for comparable stores and e-commerce. Our stores are added to the comparable sales calculation in the beginning of their thirteenth month of operation.

Non-IFRS Metrics

Adjusted EBITDA is not a presentation made in accordance with IFRS, and the use of the term Adjusted EBITDA may differ from similar measures reported by other companies. We believe that Adjusted EBITDA provides investors with useful information with respect to our historical operations. Adjusted EBITDA is not a measurement 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 EBITDA is frequently used by

securities analysts, lenders and others in their evaluation of companies, it has 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 EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does 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 does not reflect any cash requirements for such replacements.

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

The following table presents a reconciliation of Adjusted EBITDA to our net income (loss) determined in accordance with IFRS:

(in thousands)	For the three months ended	
	April 30, 2016	May 2, 2015
Net income (loss)	\$ 1,514	\$ (93,226)
Finance costs	17	792
Finance income	(121)	(51)
Depreciation and amortization	1,948	1,421
Provision for income tax (recovery)	626	(488)
EBITDA	\$ 3,984	\$ (91,552)
Additional adjustments:		
Stock-based compensation expense (a)	316	325
Stock-based compensation expense related to cashless exercise (b)	—	4,052
Provision (recovery) for onerous contracts (c)	—	(74)
Deferred rent (d)	280	198
Accretion of preferred shares (e)	—	314
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares (f)	—	90,705
Adjusted EBITDA	\$ 4,580	\$ 3,968

- (a) Represents non-cash stock-based compensation expense.
- (b) Represents expense related to cashless exercise of options by former employees.
- (c) Represents provision and non-cash recovery related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
- (d) Represents the extent to which our annual rent expense has been above or below our cash rent.
- (e) Represents non-cash accretion expense on our preferred shares. In connection with the completion of our IPO on June 10, 2015, all of our outstanding preferred shares were converted automatically into common shares.
- (f) Represents the non-cash market loss for the conversion feature of the Series A, A-1 and A-2 preferred shares. In connection with our IPO, this liability was converted into equity.

Three Months Ended April 30, 2016 Compared to Three Months Ended May 2, 2015

Sales. Sales for the three months ended April 30, 2016 increased 24.3%, or \$8.7 million, to \$44.5 million from \$35.8 million for the three months ended May 2, 2015, comprising \$1.7 million in comparable sales and \$7.0 million in non-comparable sales. Comparable sales increased by 4.9% and non-comparable sales increased primarily due to an additional 37 net new stores opened as at April 30, 2016 as compared to May 2, 2015.

Gross Profit. Gross profit increased by 21.5%, or \$4.1 million, to \$23.2 million for the three months ended April 30, 2016 from \$19.1 million for the three months ended May 2, 2015. Gross profit as a percentage of sales decreased to 52.1% for the three months ended April 30, 2016 from 53.3% for the three months ended May 2, 2015, driven primarily by the adverse impact from the stronger U.S. dollar on U.S. dollar denominated purchases, partially offset by supply chain efficiencies.

Selling, General and Administration Expenses. Selling, general and administration expenses increased by 24.1%, or \$4.1 million, to \$21.1 million in the three months ended April 30, 2016 from \$17.0 million for the three months ended May 2, 2015, due primarily to the hiring of additional staff to support the growth of the Company, as well as due to higher store operating expenses to support the operations of 198 stores as of April 30, 2016 as compared to 161 stores as of May 2, 2015. As a percentage of sales, selling, general and administration expenses increased to 47.5% for the three months ended April 30, 2016, as compared to 47.4% for the three months ended May 2, 2015.

Results from Operating Activities. Results from operating activities increased by 200.0%, or \$4.0 million, to \$2.0 million in the three months ended April 30, 2016 from \$(2.0) million in the three months ended May 2, 2015. Excluding the impact of stock-based compensation related to cashless exercise in Fiscal 2015 for the three months ended May 2, 2015, results from operating activities decreased by \$0.1 million, to \$2.0 million for the three months ended April 30, 2016, from \$2.1 million for the three months ended May 2, 2015.

Finance Costs. Finance costs were nil for the three months ended April 30, 2016, compared to \$0.8 million for the three months ended May 2, 2015, as a result of the repayment of the term loans, loan from controlling shareholder and Revolving Facility and no accrued dividends due to the conversion of Series A, A-1 and A-2 preferred shares.

Provision for Income Taxes (Recovery). Provision for income taxes increased \$1.1 million, to \$0.6 million for the three months ended April 30, 2016 from a recovery of \$0.5 million for the three months ended May 2, 2015. The increase in the provision for income taxes was due primarily to higher results from operating activities. Our effective tax rates were 29.3% and 0.5% for the three months ended April 30, 2016 and May 2, 2015, respectively. The effective tax rate increased as a result of the loss from embedded derivative on Series A, A-1 and A-2 preferred shares not recurring in Fiscal 2016 due to their conversion and cancellation.

Liquidity and Capital Resources

As at April 30, 2016 we had \$69.1 million of cash primarily held with major Canadian financial institutions. Our working capital was \$77.9 million as of April 30, 2016, compared to \$82.8 million as at January 30, 2016.

Our primary sources of liquidity are cash on hand, cash flows from operations and borrowings under our revolving credit facility. Our primary cash needs are to support the increase in inventories as we expand the number of our stores, and for capital expenditures related to new stores and store renovations.

Capital expenditures typically vary depending on the timing of new stores openings and infrastructure-related investments. During fiscal 2016, we plan to spend approximately \$21.0-\$23.0 million on capital expenditures. We expect to devote approximately 85-90% of our capital budget to construct, lease and open 23-27 new stores in Canada and 13-17 new stores in the United States, and renovate a number of existing stores, with the remainder of the capital budget to make continued investment in our infrastructure.

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. Historically, we have funded our capital expenditures and working capital requirements with borrowings under our long-term debt and finance lease facilities and revolving credit facilities. Following our IPO, we funded our capital expenditures and working capital requirements with cash from our IPO and net cash from our operating activities.

We believe that our cash position, net cash provided by operating activities and available borrowings under our revolving credit facility will be adequate to finance our planned capital expenditures and working capital requirements for the foreseeable future.

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	
	April 30, 2016	May 2, 2015
Cash flows provided by (used in):		
Operating activities	\$ (788)	\$ (6,657)
Investing activities	(3,002)	(2,108)
Financing activities	344	(1,241)
Decreases in cash	\$ (3,446)	\$ (10,006)

Cash Flows Provided by Operating Activities

Net cash used in operating activities decreased to \$(0.8) million for the three months ended April 30, 2016 from \$(6.7) million for the three months ended May 2, 2015. The increase in the cash flows provided by operating activities was due primarily to the stock-based compensation related to cashless exercise during the three months ended May 2, 2015 that did not re-occur during the three months ended April 30, 2016.

Cash Flows Provided by Investing Activities

Capital expenditures increased \$0.9 million, to \$3.0 million for the three months ended April 30, 2016, from \$2.1 million for the three months ended May 2, 2015. This increase was primarily due to the number of new store build-outs. We opened 5 new stores for the three months ended April 30, 2016 compared to 7 new stores for the three months ended May 2, 2015, and we anticipate opening an additional 11 stores during the three months ending July 30, 2016, for which we have incurred costs during the three months ended April 30, 2016, as compared to 5 stores for which costs were primarily incurred during the three months ended August 1, 2015.

Cash Flows Provided By Financing Activities

Net cash flows provided by financing activities amounted to \$0.3 million for the three months ended April 30, 2016 due to proceeds from share issuances, compared to \$(1.2) million for the three months ended May 2, 2015, when there were long-term debt repayments.

Credit Facility with Bank of Montreal

The Company has a credit arrangement (hereinafter referred to as "Credit Agreement") with the Bank of Montreal ("BMO") that provides for a revolving term facility, maturing April 24, 2018, in the principal amount of \$20.0 million (which we refers to as the "Revolving Facility") or the equivalent amount in U.S. dollars, repayable at any time. The Credit Agreement also provides for an accordion feature whereby we may, at any time prior to the end of the term

and with the permission of BMO, request an increase to the Revolving Facility by an amount not greater than \$10.0 million. As at April 30, 2016, we did not have any borrowings on the Revolving Facility.

The credit facility contains a number of financial and non-financial covenants that, among other things and subject to certain exceptions, restrict our ability to become guarantor or endorser or otherwise become liable upon any note or other obligation other than in the normal course of business. We also cannot make any dividend payments. As at April 30, 2016, we are in compliance with these covenants.

Off-Balance Sheet Arrangements

Other than operating lease obligations, 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 January 30, 2016, 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 January 30, 2016 included in our Annual Report on Form 10-K dated April 12, 2016 and filed on April 13, 2016. There have been no material changes to the critical accounting policies and estimates since January 30, 2016, other than as described below.

Recently Issued Accounting Standards

During the three-month period ended April 30, 2016, we implemented the following new accounting standards on the presentation of financial statements.

IAS 1, "Presentation of Financial Statements" ("IAS 1"), was modified in December 2014 when the IASB issued amendments to clarify materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the consolidated balance sheets and consolidated statements of income (loss) and comprehensive income (loss). These amendments shall be applied to fiscal years beginning on or after January 1, 2016. The Company has adopted this accounting standard effective on January 31, 2016, the first day of our newest fiscal year. The adoption of IAS 1 has resulted in no impact to the consolidated financial statements.

There were no other new accounting standards implemented during the three-month period ended April 30, 2016.

Information on significant new accounting standards and amendments issued but not yet adopted is described below.

IFRS 9, "Financial Instruments" ("IFRS 9"), partially replaces the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This standard is the first step in the project to replace IAS 39. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39. These changes are applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) replaces IAS 11, “Construction Contracts”, and IAS 18, “Revenue”, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

IFRS 16, “Leases” (“IFRS 16”) replaces IAS 17, “Leases”. This standard provides a single model for leases abolishing the current distinction between finance and operating leases, with most leases being recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low value assets. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is currently assessing the impact of adopting this standard on our consolidated financial statements and related note disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the foreign exchange and interest rate risk discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K dated April 12, 2016 and filed on April 13, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2016. 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 April 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no changes in our internal control over financial reporting (as defined in Rule 13a-15(ff) under the Exchange Act) during the three-month period ended April 30, 2016, that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, subject to claims and suits arising in the ordinary course of business. Although the outcome of these and other claims cannot be predicted with certainty, management does not believe that the ultimate resolution of any matters in which we are currently involved will have a material adverse affect on our financial position or on our results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K dated April 12, 2016 and filed on April 13, 2016, pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the “Securities Act”).

Item 2. Unregistered Sales of Equity Securities

Recent Sales of Unregistered Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

- | | |
|------|---|
| 31.1 | Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

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

DAVIDsTEA INC.

Date: June 8, 2016

By: /s/ Sylvain Toutant
Name: Sylvain Toutant
Title: President and Chief Executive Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER, DAVIDsTEA INC.

I, Sylvain Toutant, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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) 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
 - (c) 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: June 8, 2016

/s/ Sylvain Toutant
Sylvain Toutant
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER, DAVIDsTEA INC.

I, Luis Borgen, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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) 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
 - (c) 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;
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: June 8, 2016

/s/ Luis Borgen
Luis Borgen
Chief Financial Officer

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

In connection with the Quarterly Report of DAVIDsTEA Inc. (the "Company") on Form 10-Q for the period ended April 30, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Sylvain Toutant, President and 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 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: June 8, 2016

/s/ Sylvain Toutant
Sylvain Toutant
President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to DAVIDsTEA Inc. and will be retained by DAVIDsTEA Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of DAVIDsTEA Inc. (the "Company") on Form 10-Q for the period ended April 30, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Luis Borgen, Chief Financial 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: June 8, 2016

/s/ Luis Borgen
Luis Borgen
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to DAVIDsTEA Inc. and will be retained by DAVIDsTEA Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
