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# FORM 10-Q

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## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended October 28, 2017.

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

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**DAVIDsTEA Inc.**

(Exact name of registrant as specified in its charter)

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**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)

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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

Accelerated filer

Emerging growth company

Non-accelerated filer

Smaller reporting 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 6, 2017, 25,844,615 common shares of the registrant were outstanding.

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**DAVIDsTEA Inc.**

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

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

On December 1, 2017, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was US\$1.00 = \$1.2705.

**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	
	October 28, 2017	January 28, 2017
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	36,865	64,440
Accounts and other receivables	3,777	3,485
Inventories	37,290	31,264
Income tax receivable	5,625	539
Prepaid expenses and deposits	6,232	5,659
Derivative financial instruments	628	454
<b>Total current assets</b>	<b>90,417</b>	<b>105,841</b>
Property and equipment	47,012	51,160
Intangible assets	3,502	2,958
Deferred income tax assets	13,860	14,375
<b>Total assets</b>	<b>154,791</b>	<b>174,334</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Trade and other payables	13,592	19,681
Deferred revenue	4,075	4,885
Current portion of provisions	919	2,562
<b>Total current liabilities</b>	<b>18,586</b>	<b>27,128</b>
Deferred rent and lease inducements	8,669	7,824
Provisions	3,926	5,932
<b>Total liabilities</b>	<b>31,181</b>	<b>40,884</b>
<b>Equity</b>		
Share capital	111,339	263,828
Contributed surplus	7,936	8,833
Retained earnings (deficit)	1,323	(142,398)
Accumulated other comprehensive income	3,012	3,187
<b>Total equity</b>	<b>123,610</b>	<b>133,450</b>
	<b>154,791</b>	<b>174,334</b>

See accompanying notes

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

AND COMPREHENSIVE INCOME (LOSS)

[Unaudited and in thousands of Canadian dollars, except share and per share information]

		For the three months ended		For the nine months ended	
		October 28, 2017 \$	October 29, 2016 \$	October 28, 2017 \$	October 29, 2016 \$
<b>Sales</b>	[Note 14]	<b>42,997</b>	44,134	<b>137,353</b>	129,682
Cost of sales		<b>24,625</b>	23,587	<b>74,594</b>	66,072
<b>Gross profit</b>		<b>18,372</b>	20,547	<b>62,759</b>	63,610
Selling, general and administration expenses	[Note 11]	<b>27,035</b>	27,187	<b>79,004</b>	71,116
<b>Results from operating activities</b>		<b>(8,663)</b>	(6,640)	<b>(16,245)</b>	(7,506)
Finance costs		<b>327</b>	19	<b>615</b>	55
Finance income		<b>(149)</b>	(125)	<b>(420)</b>	(394)
<b>Loss before income taxes</b>		<b>(8,841)</b>	(6,534)	<b>(16,440)</b>	(7,167)
Income tax recovery		<b>(2,356)</b>	(1,574)	<b>(4,030)</b>	(1,454)
<b>Net loss</b>		<b>(6,485)</b>	(4,960)	<b>(12,410)</b>	(5,713)
<b>Other comprehensive income (loss)</b>					
Items to be reclassified subsequently to income:					
Unrealized net gain (loss) on forward exchange contracts	[Note 15]	<b>1,872</b>	537	<b>95</b>	(1,982)
Realized net (gain) loss on forward exchange contracts reclassified to inventory		<b>824</b>	(26)	<b>79</b>	(396)
Provision for income tax recovery (income tax) on comprehensive income		<b>(714)</b>	(136)	<b>(46)</b>	631
Cumulative translation adjustment		<b>589</b>	699	<b>(303)</b>	(770)
<b>Other comprehensive income (loss), net of tax</b>		<b>2,571</b>	1,074	<b>(175)</b>	(2,517)
<b>Total comprehensive loss</b>		<b>(3,914)</b>	(3,886)	<b>(12,585)</b>	(8,230)
<b>Net loss per share:</b>					
Basic	[Note 12]	(0.25)	(0.20)	(0.48)	(0.23)
Fully diluted	[Note 12]	(0.25)	(0.20)	(0.48)	(0.23)
<b>Weighted average number of shares outstanding</b>					
— basic	[Note 12]	<b>25,829,090</b>	24,902,385	25,659,164	24,554,391
— fully diluted	[Note 12]	<b>25,829,090</b>	24,902,385	25,659,164	24,554,391

See accompanying notes

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited and in thousands of Canadian dollars]

	For the three months ended		For the nine months ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(6,485)	(4,960)	(12,410)	(5,713)
Items not affecting cash:				
Depreciation of property and equipment	2,138	2,110	6,316	5,818
Amortization of intangible assets	494	198	1,248	527
Loss on disposal of property and equipment	18	311	48	311
Impairment of property and equipment	2,658	2,516	4,971	2,516
Deferred rent	174	385	377	1,031
Provision (recovery) for onerous contracts	(46)	48	(1,573)	48
Stock-based compensation expense	362	643	1,738	1,573
Amortization of financing fees	19	19	59	55
Accretion on provisions	307	—	558	—
Deferred income taxes (recovered)	(227)	453	203	475
	(588)	1,723	1,535	6,641
Net change in other non-cash working capital balances related to operations	(15,546)	(23,978)	(21,511)	(31,467)
<b>Cash flows related to operating activities</b>	<b>(16,134)</b>	<b>(22,255)</b>	<b>(19,976)</b>	<b>(24,826)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of common shares pursuant to exercise of stock options	90	962	1,696	1,806
<b>Cash flows related to financing activities</b>	<b>90</b>	<b>962</b>	<b>1,696</b>	<b>1,806</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property and equipment	(2,770)	(5,776)	(7,501)	(15,498)
Additions to intangible assets	(728)	(399)	(1,794)	(860)
<b>Cash flows related to investing activities</b>	<b>(3,498)</b>	<b>(6,175)</b>	<b>(9,295)</b>	<b>(16,358)</b>
Decrease in cash during the period	(19,542)	(27,468)	(27,575)	(39,378)
<b>Cash, beginning of period</b>	<b>56,407</b>	<b>60,604</b>	<b>64,440</b>	<b>72,514</b>
<b>Cash, end of period</b>	<b>36,865</b>	<b>33,136</b>	<b>36,865</b>	<b>33,136</b>
<b>Supplemental Information</b>				
Cash paid for:				
Income taxes (classified as operating activity)	165	1,279	877	2,436
Cash received for:				
Interest	146	121	433	382
Income taxes (classified as operating activity)	—	97	26	522

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, January 30, 2016	259,205	7,094	(138,465)	2,529	3,674	6,203	134,037
Net loss for the nine months ended October 29, 2016	—	—	(5,713)	—	—	—	(5,713)
Other comprehensive loss	—	—	—	(1,747)	(770)	(2,517)	(2,517)
Total comprehensive loss	—	—	(5,713)	(1,747)	(770)	(2,517)	(8,230)
Issuance of common shares	2,705	(899)	—	—	—	—	1,806
Common shares issued on vesting of restricted stock units	239	(470)	(254)	—	—	—	(485)
Stock-based compensation expense	—	1,573	—	—	—	—	1,573
Income tax impact associated with stock options	—	178	—	—	—	—	178
Balance, October 29, 2016	<u>262,149</u>	<u>7,476</u>	<u>(144,432)</u>	<u>782</u>	<u>2,904</u>	<u>3,686</u>	<u>128,879</u>
<b>Balance, January 28, 2017</b>	<b>263,828</b>	<b>8,833</b>	<b>(142,398)</b>	<b>333</b>	<b>2,854</b>	<b>3,187</b>	<b>133,450</b>
Net loss for the nine months ended October 28, 2017	—	—	(12,410)	—	—	—	(12,410)
Other comprehensive loss	—	—	—	128	(303)	(175)	(175)
Total comprehensive loss	—	—	(12,410)	128	(303)	(175)	(12,585)
Issuance of common shares	2,546	(850)	—	—	—	—	1,696
Common shares issued on vesting of restricted stock units	912	(1,652)	184	—	—	—	(556)
Stock-based compensation expense	—	1,738	—	—	—	—	1,738
Income tax impact associated with stock options	—	(133)	—	—	—	—	(133)
Reduction of stated capital	(155,947)	—	155,947	—	—	—	—
Balance, October 28, 2017	<u>111,339</u>	<u>7,936</u>	<u>1,323</u>	<u>461</u>	<u>2,551</u>	<u>3,012</u>	<u>123,610</u>

See accompanying notes

## DAVIDsTEA Inc.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine-month periods ended October 28, 2017 and October 29, 2016 [Unaudited]

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

#### 1. CORPORATE INFORMATION

The unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the three and nine-month periods ended October 28, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on December 7, 2017. 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 28, 2017, 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 January 28, 2017. During the nine-month period ended October 28, 2017, we did not implement any new accounting standards.

##### Gift card breakage

During the three months ended October 29, 2016, the Company determined that it had sufficient historical redemption patterns to record breakage income associated with unredeemed gift cards, and accordingly recorded breakage income associated to gift cards issued and redeemed in prior years, when no breakage income was included. Gift card breakage is included in sales in the interim consolidated statement of income (loss). Sales for the three and nine months ended October 28, 2017 include breakage income of \$100 and \$485, respectively [\$850 for the three and nine months ended October 29, 2016].

#### 3. CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, “Financial Instruments”, for which the final version was issued in July 2014 by the IASB, replaces IAS 39, “Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application

permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements and related note disclosures. The Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses. The Company will perform a detailed assessment in the coming quarters to determine the extent of the impact. As we continue our evaluation, we will further clarify the expected impact of the adoption of the standard, which we do not believe will be material.

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 expects that the implementation of IFRS 15 will impact the allocation of revenue that is deferred in relation to its customer loyalty award programs. Revenue is currently allocated to the customer loyalty awards using the residual fair value method. Under IFRS 15, consideration will be allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices. The Company is currently assessing the impact of this change on its consolidated financial statements. As we continue our evaluation, we will further clarify the expected impact of the adoption of the standard, which we do not believe will be material.

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 has performed a preliminary assessment of the potential impact of the adoption of IFRS 16 on its consolidated financial statements. The Company expects the adoption of IFRS 16 will have a significant impact as the Company will recognize 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 not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients under the standard. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects, before the adoption of IFRS 16.

IFRIC 22, “Foreign Currency Transactions and Advance Consideration” (“IFRIC 22”). In December 2016, the IASB issued IFRIC 22, which addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is in the process of evaluating the impact of adopting the interpretation of IFRIC 22 on its consolidated financial statements.

IFRIC 23, “Uncertainty over Income Tax Treatments”, 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 Company is in the process of evaluating the impact of adopting the interpretation of IFRIC 23 on its consolidated 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 January 28, 2017, other than as those disclosed in note 6.

#### 5. INVENTORIES

	October 28, 2017	January 28, 2017
	\$	\$
Finished goods	32,647	24,504
Goods in transit	2,862	5,463
Packaging	1,781	1,297
	<u>37,290</u>	<u>31,264</u>

#### 6. PROPERTY AND EQUIPMENT

For the three and nine months ended October 28, 2017, an assessment of indicators was performed which caused the Company to review the recoverable amount of the property and equipment for certain CGUs with an indication of impairment. CGUs reviewed included stores performing below the Company’s expectations.

As a result, for the three and nine month periods ended October 28, 2017 an impairment loss of \$2,658 and \$5,837, respectively, [\$2,516 for the three and nine month periods ended October 29, 2016] related to store leasehold improvements, furniture and equipment, and computer hardware was recognized in the Canadian and U.S segments. The impairment loss was determined by comparing the carrying amount of the CGU’s net assets with their respective recoverable amounts based on value in use, and is included in selling, general and administration expenses in the consolidated statements of net income (loss) and comprehensive income (loss). Value in use of \$635 for the CGU’s in question was determined based on management’s best estimate of expected future cash flows from use over the remaining lease terms, considering historical experience as well as current economic conditions, and was then discounted using a pre-tax weighted average cost of capital of 13.4%. For the three and nine months ended October 28, 2017, nil and \$866, respectively, of impairment losses were reversed following a change in the expected future cash flows of certain CGUs in the U.S. segment [October 29, 2016 – nil and nil]. Value in use of \$848 for these CGU’s was determined in the same manner as described above. Impairment losses were reversed only to the extent that the carrying amounts of the CGU’s net assets did not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

For the purpose of determining value in use as at October 28, 2017, management’s best estimate of future cash flows from use over the remaining lease terms incorporate an assumption of sales capture for CGU’s located in the same mall as one the Company’s main competitors. The Company performed a sensitivity analysis on its value in use calculations to determine how a change in its assumptions would impact its results from operations. As at October 28, 2017, a 20% decrease or increase in the expected future sales capture from the Company’s competitor, assuming that all other variables had remained the same, would have resulted in an increase of nil and \$163 or a decrease of nil and \$113 in the net impairment loss for the three and nine month periods ended October 28, 2017, respectively.

## 7. PROVISIONS

	For the nine months ended October 28, 2017 \$
Opening balance	8,494
Utilization	(2,340)
Additions	458
Reversals	(2,031)
Payments	(132)
Accretion expense	558
Cumulative translation adjustment	(162)
<b>Ending balance</b>	<b>4,845</b>
Less: Current portion	(919)
Long-term portion of provisions	<b>3,926</b>

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. During the nine-month period ended October 28, 2017, due to changes in assumptions, additions to the onerous provisions were recorded in the amount of \$458, while the provisions for other stores were partially or fully reversed by an amount of \$2,031.

## 8. REVOLVING FACILITY

The Company has a credit agreement (the "Credit Agreement") with the Bank of Montreal ("BMO"). The Credit Agreement provides for a three-year revolving term facility, maturing October 31, 2019, 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 also cannot make any dividend payments. As at October 28, 2017, the Company is in compliance with these covenants.

As at October 28, 2017 and January 28, 2017, the Company did not have any borrowings on the Revolving Facility.

## 9. SHARE CAPITAL

### Authorized

An unlimited number of Common shares.

## Issued and outstanding

	October 28, 2017 \$	January 28, 2017 \$
25,843,544 Common shares [January 28, 2017 - 25,330,951 shares]	<u>111,339</u>	<u>263,828</u>
	<u>111,339</u>	<u>263,828</u>

In June 2017, the shareholders of the Company approved a resolution to reduce the stated capital maintained in respect of the common shares by an amount of \$155,947, which resulted in a corresponding reduction of the deficit.

During the three and nine-month periods ended October 28, 2017, 24,000 and 436,773 stock options, respectively, were exercised for common shares for cash proceeds of \$90 and \$1,696 [October 29, 2016 — 273,078 and 949,649 stock options for cash proceeds of \$962 and \$1,806]. The carrying value of common shares during the three and nine-month periods ended October 28, 2017 includes \$22 and \$850, respectively [October 29, 2016 — \$595 and \$899], which corresponds to a reduction in contributed surplus associated to options exercised during the period.

In addition, during the three and nine-month periods ended October 28, 2017, 19,819 and 75,820 common shares, respectively, [October 29, 2016 – 2,043 and 32,441 common shares] were issued in relation to the vesting of restricted stock units (“RSU”), resulting in an increase in share capital of \$208 and \$912, net of tax, respectively [October 29, 2016 – \$25 and \$239] and a reduction in contributed surplus of \$433 and \$1,652 [October 29, 2016 — \$53 and \$470].

## Stock-based compensation

As at October 28, 2017, 664,479 common shares remain available for issuance under the 2015 Omnibus Plan.

The weighted average fair value of options granted of \$2.39 for the nine-month period ended October 28, 2017 [for the nine-month period ended October 29, 2016 — \$3.72] was estimated using the Black Scholes option pricing model, using the following assumptions:

	<u>For the nine months ended</u>	
	<u>October 28, 2017</u>	<u>October 29, 2016</u>
Risk-free interest rate	1.79 %	1.23 %
Expected volatility	27.4 %	29.8 %
Expected option life	4.0 years	4.0 years
Expected dividend yield	0 %	0 %
Exercise price	\$ 9.76	\$ 14.67

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 nine-month period is presented below.

	For the nine months ended			
	October 28, 2017		October 29, 2016	
	Options outstanding #	Weighted average exercise price \$	Options outstanding #	Weighted average exercise price \$
<b>Outstanding, beginning of period</b>	<b>933,195</b>	<b>5.63</b>	2,146,880	3.04
Issued	161,980	9.76	174,031	14.67
Exercised	(436,773)	3.88	(949,649)	1.90
Forfeitures	(135,135)	8.31	(112,283)	4.97
<b>Outstanding, end of period</b>	<b>523,267</b>	<b>7.67</b>	1,258,979	5.34
<b>Exercisable, end of period</b>	<b>315,909</b>	<b>5.74</b>	586,885	3.61

The weighted average share price at the date of exercise for stock options exercised during the nine-month period ended October 28, 2017 was \$8.68 [October 29, 2016 — \$15.64].

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

	For the nine months ended			
	October 28, 2017		October 29, 2016	
	RSUs outstanding #	Weighted average fair value per unit (1) \$	RSUs outstanding #	Weighted average fair value per unit (1) \$
<b>Outstanding, beginning of period</b>	<b>252,233</b>	<b>12.42</b>	252,720	7.39
Granted	298,897	8.59	194,154	14.71
Forfeitures	(34,864)	10.19	(36,647)	7.23
Vested	(75,820)	12.21	(32,441)	7.39
Vested, withheld for tax	(65,342)	11.40	(30,981)	7.39
<b>Outstanding, end of period</b>	<b>375,104</b>	<b>9.80</b>	346,805	11.63

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

During the three and nine-month periods ended October 28, 2017, the Company recognized a stock-based compensation expense of \$362 and \$1,738, respectively [October 29, 2016 — \$643 and \$1,573].

## 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 nine months ended			
	October 28, 2017		October 29, 2016		October 28, 2017		October 29, 2016	
	%	\$	%	\$	%	\$	%	\$
<b>Income tax recovery — statutory rate</b>	<b>26.8</b>	<b>(2,368)</b>	26.6	(1,735)	<b>26.8</b>	<b>(4,404)</b>	26.6	(1,903)
Non-deductible items	(0.4)	38	(0.2)	11	(2.3)	385	(5.1)	367
Other	0.3	(26)	(2.3)	150	0.1	(11)	(1.1)	82
<b>Income tax provision (recovery) — effective tax rate</b>	<b>26.7</b>	<b>(2,356)</b>	24.1	(1,574)	<b>24.6</b>	<b>(4,030)</b>	20.3	(1,454)

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

	For the three months ended		For the nine months ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	\$	\$	\$	\$
Income tax provision (recovery)				
Current	(2,129)	(2,027)	(4,233)	(1,929)
Deferred	(227)	453	203	475
	<b>(2,356)</b>	<b>(1,574)</b>	<b>(4,030)</b>	<b>(1,454)</b>

## 11. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended		For the nine months ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	\$	\$	\$	\$
Wages, salaries and employee benefits	15,012	15,376	47,113	42,910
Depreciation of property and equipment	2,138	2,110	6,316	5,818
Amortization of intangible assets	494	198	1,248	527
Loss on disposal of property and equipment	18	311	48	311
Impairment of property and equipment	2,658	2,516	4,971	2,516
Provision (recovery) for onerous contracts	(46)	48	(1,573)	48
Stock-based compensation	362	643	1,738	1,573
Executive separation costs related to salary	1,070	505	1,882	505
Other selling, general and administration	5,329	5,480	17,261	16,908
	<b>27,035</b>	<b>27,187</b>	<b>79,004</b>	<b>71,116</b>

## 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) 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>For the nine months ended</u>	
	<u>October 28, 2017</u>	<u>October 29, 2016</u>	<u>October 28, 2017</u>	<u>October 29, 2016</u>
	\$	\$	\$	\$
<b>Net loss for basic EPS</b>	<b>(6,485)</b>	<b>(4,960)</b>	<b>(12,410)</b>	<b>(5,713)</b>
<b>Weighted average number of shares outstanding — basic and diluted</b>	<b>25,829,090</b>	24,902,385	<b>25,659,164</b>	24,554,391

As a result of the net loss during the three and nine-month periods ended October 28, 2017, the stock options and restricted stock units disclosed in Note 9 are anti-dilutive.

### 13. RELATED PARTY DISCLOSURES

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended January 28, 2017.

### 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 allocation and assesses performance at the country level, and for which discrete financial information is available.

The Company derives revenue from the following products:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>October 28, 2017</u>	<u>October 29, 2016</u>	<u>October 28, 2017</u>	<u>October 29, 2016</u>
	\$	\$	\$	\$
Tea	<b>30,098</b>	30,013	<b>93,958</b>	86,042
Tea accessories	<b>8,636</b>	9,590	<b>30,315</b>	30,294
Food and beverages	<b>4,263</b>	4,531	<b>13,080</b>	13,346
	<b><u>42,997</u></b>	<u>44,134</u>	<b><u>137,353</u></b>	<u>129,682</u>

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

	<u>October 28, January 28,</u>	
	<u>2017</u>	<u>2017</u>
	\$	\$
Canada	<b>41,181</b>	41,432
US	<b>9,333</b>	12,686
<b>Total</b>	<b><u>50,514</u></b>	<u>54,118</u>

Gross profit per country, excluding intercompany profit, 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			For the nine months ended		
	October 28, 2017			October 28, 2017		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
<b>Sales</b>	<b>35,495</b>	<b>7,502</b>	<b>42,997</b>	<b>112,803</b>	<b>24,550</b>	<b>137,353</b>
Cost of sales	19,475	5,150	24,625	59,046	15,548	74,594
<b>Gross profit</b>	<b>16,020</b>	<b>2,352</b>	<b>18,372</b>	<b>53,757</b>	<b>9,002</b>	<b>62,759</b>
Selling, general and administration expenses			27,035			79,004
<b>Results from operating activities</b>			<b>(8,663)</b>			<b>(16,245)</b>
Finance costs			327			615
Finance income			(149)			(420)
<b>Loss before income taxes</b>			<b>(8,841)</b>			<b>(16,440)</b>

	For the three months ended			For the nine months ended		
	October 29, 2016			October 29, 2016		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
<b>Sales</b>	<b>36,693</b>	<b>7,441</b>	<b>44,134</b>	<b>107,547</b>	<b>22,135</b>	<b>129,682</b>
Cost of sales	18,730	4,857	23,587	52,614	13,458	66,072
<b>Gross profit</b>	<b>17,963</b>	<b>2,584</b>	<b>20,547</b>	<b>54,933</b>	<b>8,677</b>	<b>63,610</b>
Selling, general and administration expenses			27,187			71,116
<b>Results from operating activities</b>			<b>(6,640)</b>			<b>(7,506)</b>
Finance costs			19			55
Finance income			(125)			(394)
<b>Loss before income taxes</b>			<b>(6,534)</b>			<b>(7,167)</b>

## 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 \$8.

The Company's foreign exchange exposure is as follows:

	October 28,	January 28,
	2017	2017
	US\$	US\$
Cash	2,412	690
Accounts receivable	1,323	1,188
Accounts payable	3,578	2,461

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 80% to 90% of its expected U.S. dollar inventory purchasing requirements, through September 2018. 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 IAS 39. This has resulted in mark-to-market foreign exchange adjustments, for qualifying hedged instruments, being recorded as a component of other comprehensive income (loss) for the three and nine-month periods ended October 28, 2017. As at October 28, 2017, the designated portion of these hedges was considered effective.

The nominal and contract values of foreign exchange contracts outstanding as at October 28, 2017 are as follows:

	Contractual exchange rate	Nominal value US\$	Nominal value C\$	Term	Unrealized gain/(loss) C\$
<b>Purchase contracts</b>					
U.S. dollar	1.2221 - 1.3098	35,400	44,796	November 2017 to September 2018	628

The nominal and contract values of foreign exchange contracts outstanding as at October 29, 2016 are as follows:

	Range of contractual exchange rate	Nominal value US\$	Nominal value C\$	Term	Unrealized gain/(loss) C\$
<b>Purchase contracts</b>					
U.S. dollar	1.2696 - 1.2772	17,100	21,760	November 2016 to April 2017	1,065

#### 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 and consists of cash. The Company is exposed to cash flow risk on its Revolving Facility which bears interest at variable interest rates (Note 8). As at October 28, 2017, 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 October 28, 2017, the Company had \$36,865 in cash. In addition, as outlined in Note 8, the Company has a Revolving Facility of \$20,000, of which nil was drawn as at October 28, 2017. 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 8) 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 28, 2017 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. There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the nine month period ended October 28, 2017 or the nine month period ended October 29, 2016.

## 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 include 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, 2017 and filed on April 13, 2017. 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 2017" are to the Company's fiscal year ending February 3, 2018. 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.

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 ending February 3, 2018 covers a 53-week fiscal period. The years ending January 28, 2017 and January 30, 2016 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 236 company-operated DAVIDsTEA stores as of October 28, 2017, 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. 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.

## 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 wholesale sales, which includes sales to hotels, restaurants and institutions, office and workplace locations and food services, as well as corporate gifting. 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 (recovery) 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.

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 22 of this Quarterly Report on Form 10-Q.

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

We present Adjusted results from operating activities as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. It is reconciled to its nearest IFRS measure on page 23 of this Quarterly Report on Form 10-Q.

*Finance Costs.* Finance costs consist of cash and imputed non-cash charges related to our credit facility, as well as the accretion expense on the provisions for onerous contracts.

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

*Adjusted EBITDA.* We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. Specifically, Adjusted EBITDA allows for an assessment of our operating performance and our ability to service or incur indebtedness without the effect of non-cash charges, such as depreciation, amortization, finance costs, deferred rent, non-cash compensation expense, costs (recovery) related to onerous contracts or contracts where we expect the costs of the obligations to exceed the economic benefit, loss on disposal of property and equipment, impairment of property and equipment, and certain non-recurring expenses. This measure also functions as a benchmark to evaluate our operating performance. It is reconciled to its nearest IFRS measure on page 24 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:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Consolidated statement of income (loss) data:</b>				
Sales	\$ 42,997	\$ 44,134	\$ 137,353	\$ 129,682
Cost of sales	24,625	23,587	74,594	66,072
Gross profit	18,372	20,547	62,759	63,610
Selling, general and administration expenses	27,035	27,187	79,004	71,116
<b>Results from operating activities</b>	<b>(8,663)</b>	<b>(6,640)</b>	<b>(16,245)</b>	<b>(7,506)</b>
Finance costs	327	19	615	55
Finance income	(149)	(125)	(420)	(394)
<b>Loss before income taxes</b>	<b>(8,841)</b>	<b>(6,534)</b>	<b>(16,440)</b>	<b>(7,167)</b>
Income tax recovery	(2,356)	(1,574)	(4,030)	(1,454)
<b>Net loss</b>	<b>\$ (6,485)</b>	<b>\$ (4,960)</b>	<b>\$ (12,410)</b>	<b>\$ (5,713)</b>
<b>Percentage of sales:</b>				
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.3%	53.4%	54.3%	51.0%
Gross profit	42.7%	46.6%	45.7%	49.0%
Selling, general and administration expenses	62.9%	61.6%	57.5%	54.8%
Results from operating activities	(20.2%)	(15.0%)	(11.8%)	(5.8%)
Finance costs	0.7%	0.0%	0.4%	0.0%
Finance income	(0.3%)	(0.3%)	(0.3%)	(0.3%)
Loss before income taxes	(20.6%)	(14.8%)	(11.9%)	(5.5%)
Income tax recovery	(5.5%)	(3.6%)	(2.9%)	(1.1%)
Net loss	(15.1%)	(11.2%)	(9.0%)	(4.4%)
<b>Other financial and operations data:</b>				
Adjusted EBITDA (1)	\$ (2,887)	\$ 76	\$ (3,578)	\$ 4,823
Adjusted EBITDA as a percentage of sales	(6.7%)	0.2%	(2.6%)	3.7%
Number of stores at end of period	236	225	236	225
Comparable sales growth (decline) for period (2)	(6.8%)	0.8%	(4.5%)	3.5%

(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 selling, general and administration expenses, Adjusted results from operating activities and Adjusted EBITDA 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 and Adjusted EBITDA may differ from similar measures reported by other companies. We believe that Adjusted selling, general and administration expenses, Adjusted results from operating activities and Adjusted EBITDA provides investors with useful information with respect to our historical operations. Adjusted selling, general and administration expenses, Adjusted results from operating activities 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 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 and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted selling, general and administration expenses, Adjusted results from operating activities and Adjusted EBITDA 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 does not reflect any cash requirements for such replacements.

Because of these limitations, Adjusted selling, general and administration expenses, Adjusted results from operating activities and 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 tables present reconciliations of Adjusted selling, general and administration expenses, Adjusted results from operating activities and Adjusted EBITDA to our net income (loss) determined in accordance with IFRS:

### *Reconciliation of Adjusted selling, general and administration expenses*

(in thousands)	For the three months ended		For the nine months ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
<b>Selling, general and administration expenses</b>	<b>27,035</b>	27,187	<b>79,004</b>	71,116
Executive separation costs (a)	(1,112)	(594)	(2,074)	(594)
Impairment of property and equipment (b)	(2,658)	(2,516)	(4,971)	(2,516)
Impact of onerous contracts (c)	1,138	(48)	3,913	(48)
Loss on disposal of property and equipment (d)	—	(311)	—	(311)
<b>Adjusted selling, general and administration expenses</b>	<b>\$ 24,403</b>	\$ 23,718	<b>\$ 75,872</b>	\$ 67,647

- (a) For the current year periods, executive separation costs represent salary owed to former executives of \$1,070 and \$1,882 for the three and nine month periods ended October 28, 2017 as part of their separation of employment from the Company and stock-based compensation of \$42 and \$192 for the three and nine month periods ended October 28, 2017 relating to the vesting of equity awards due to the separation of employment from the Company. For the prior year periods, executive separation costs represent salary owed to the former Chief Executive Officer of \$505 payable as part of the separation agreement and stock-based compensation expense of \$89 relating to vesting of equity awards pursuant to the separation agreement.
- (b) Represents costs related to impairment of property and equipment for stores.
- (c) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits

expected to be received from the contract.

- (d) Represents non-cash costs related to the loss on disposal of property and equipment due to new store concept at an existing store location in the prior year periods.

*Reconciliation of Adjusted results from operating activities*

(in thousands)	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>
<b>Results from operating activities</b>	(8,663)	(6,640)	(16,245)	(7,506)
Executive separation costs (a)	1,112	594	2,074	594
Impairment of property and equipment (b)	2,658	2,516	4,971	2,516
Impact of onerous contracts (c)	(1,138)	48	(3,913)	48
Loss on disposal of property and equipment (d)	—	311	—	311
<b>Adjusted results from operating activities</b>	<b>\$ (6,031)</b>	<b>\$ (3,171)</b>	<b>\$ (13,113)</b>	<b>\$ (4,037)</b>

- (a) For the current year periods, executive separation costs represent salary owed to former executives of \$1,070 and \$1,882 for the three and nine month periods ended October 28, 2017 as part of their separation of employment from the Company and stock-based compensation of \$42 and \$192 for the three and nine month periods ended October 28, 2017 relating to the vesting of equity awards due to the separation of employment from the Company. For the prior year periods, executive separation costs represent salary owed to the former Chief Executive Officer of \$505 payable as part of the separation agreement and stock-based compensation expense of \$89 relating to vesting of equity awards pursuant to the separation agreement.
- (b) Represents costs related to impairment of property and equipment for stores.
- (c) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
- (d) Represents non-cash costs related to the loss on disposal of property and equipment due to new store concept at an existing store location in the prior year periods.

*Reconciliation of Adjusted EBITDA to our net income (loss)*

(in thousands)	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>
<b>Net loss</b>	\$ (6,485)	\$ (4,960)	\$ (12,410)	\$ (5,713)
Finance costs	327	19	615	55
Finance income	(149)	(125)	(420)	(394)
Depreciation and amortization	2,632	2,308	7,564	6,345
Loss on disposal of property and equipment	18	—	48	—
Income tax recovery	(2,356)	(1,574)	(4,030)	(1,454)
<b>EBITDA</b>	<b>\$ (6,013)</b>	<b>\$ (4,332)</b>	<b>\$ (8,633)</b>	<b>\$ (1,161)</b>
Additional adjustments:				
Stock-based compensation expense (a)	362	643	1,738	1,573
Executive separation costs related to salary (b)	1,070	505	1,882	505
Impairment of property and equipment (c)	2,658	2,516	4,971	2,516
Impact of onerous contracts (d)	(1,138)	48	(3,913)	48
Deferred rent (e)	174	385	377	1,031
Loss on disposal of property and equipment (f)	—	311	—	311
<b>Adjusted EBITDA</b>	<b>\$ (2,887)</b>	<b>\$ 76</b>	<b>\$ (3,578)</b>	<b>\$ 4,823</b>

- (a) Represents non-cash stock-based compensation expense.
- (b) For the current year periods, executive separation costs represent salary owed to former executives as part of their separation of employment from the Company. For the prior year periods, executive separation costs represent salary owed to the former Chief Executive Officer as part of the separation agreement.
- (c) Represents costs related to impairment of property and equipment for stores.
- (d) Represents provision, non-cash reversals, and utilization related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
- (e) Represents the extent to which our annual rent expense has been above or below our cash rent payments.
- (f) Represents non-cash costs related to the loss on disposal of property and equipment due to new store concept at an existing store location in the prior year periods.

*Three Months Ended October 28, 2017 Compared to Three Months Ended October 29, 2016*

**Sales.** Sales for the three months ended October 28, 2017 decreased 2.5%, or \$1.1 million, to \$43.0 million from \$44.1 million for the three months ended October 29, 2016, comprising a \$2.7 million decrease in comparable sales and a \$1.6 million increase in non-comparable sales. Comparable sales decreased by 6.8% and non-comparable sales increased primarily due to an additional 11 net new stores opened as at October 28, 2017 as compared to October 29, 2016. Comparable sales decreased as we faced a more challenging overall consumer retail backdrop and we also faced challenges with our accessory and kits product assortment. The latter can be explained by a product offering which did not excite the customer and which we are working diligently on improving.

**Gross Profit.** Gross profit decreased by 10.2%, or \$2.1 million, to \$18.4 million for the three months ended October 28, 2017 from \$20.5 million for the three months ended October 29, 2016. Gross profit as a percentage of sales decreased to 42.7% for the three months ended October 28, 2017, from 46.6% for the three months ended October 29, 2016 primarily due to the planned clearance of seasonal products early in the quarter, additional promotional activity during the quarter, and deleveraging of fixed costs due to the negative 6.8% comparable sales this quarter.

**Selling, General and Administration Expenses.** Selling, general and administration expenses decreased by 0.7%, or \$0.2 million, to \$27.0 million in the three months ended October 28, 2017 from \$27.2 million for the three

months ended October 29, 2016. As a percentage of sales, selling, general and administration expenses increased to 62.9% for the three months ended October 28, 2017, as compared to 61.6% for the three months ended October 29, 2016. Excluding the impact of executive separation costs, impairment of property and equipment, and onerous contracts for the three months ended October 28, 2017, as well as loss on disposal of property and equipment for the three months ended October 29, 2016, selling, general and administration expenses increased to \$24.4 million in the three months ended October 28, 2017 from \$23.7 million for the three months ended October 29, 2016 due primarily to the hiring of additional staff to support the growth of the Company, including new stores, and higher store operating expenses to support the operations of 236 stores as of October 28, 2017 as compared to 225 stores as of October 29, 2016. As a percentage of sales, selling, general and administration expenses excluding these one-time costs increased to 56.7% from 53.7%, attributable to deleveraging of fixed costs due to the negative 6.8% comparable sales this quarter.

*Results from Operating Activities.* Results from operating activities decreased by \$2.1 million, to \$(8.7) million in the three months ended October 28, 2017 from \$(6.6) million in the three months ended October 29, 2016. Excluding the impact of executive separation costs, impairment of property and equipment, and onerous contracts for the three months ended October 28, 2017, as well as loss on disposal of property and equipment for the three months ended October 29, 2016, results from operating activities decreased by \$2.8 million, to \$(6.0) million from \$(3.2) million for the three months ended October 29, 2016.

*Provision for Income Taxes (Recovery).* Recovery for income taxes increased by \$0.8 million, to \$2.4 million for the three months ended October 28, 2017 from a recovery for income taxes of \$1.6 million for the three months ended October 29, 2016. The increase in the recovery for income taxes was due primarily to lower results from operating activities. Our effective tax rates were 26.7% and 24.1% for the three months ended October 28, 2017 and October 29, 2016, respectively. This increase in the effective tax rate is due primarily to the non-deductible items relative to the higher loss before income taxes versus the three-months ended October 29, 2016.

#### *Nine Months Ended October 28, 2017 Compared to Nine Months Ended October 29, 2016*

*Sales.* Sales for the nine months ended October 28, 2017 increased 5.9%, or \$7.7 million, to \$137.4 million from \$129.7 million for the nine months ended October 29, 2016, comprising a \$5.5 million decrease in comparable sales and a \$13.2 million increase in non-comparable sales. Comparable sales decreased by 4.5% and non-comparable sales increased primarily due to an additional 11 net new stores opened as at October 28, 2017 as compared to October 29, 2016. Comparable sales decreased as we faced more a challenging overall consumer retail backdrop and we also faced challenges with our accessory and kits product assortment in the third quarter, as described above.

*Gross Profit.* Gross profit decreased by 1.3%, or \$0.8 million, to \$62.8 million for the nine months ended October 28, 2017 from \$63.6 million for the nine months ended October 29, 2016. Gross profit as a percentage of sales decreased to 45.7% for the nine months ended October 28, 2017, from 49.0% for the nine months ended October 29, 2016 primarily due to the planned clearance of seasonal products, additional promotional activity, and deleveraging of fixed costs due to the negative 4.5% comparable sales for the year-to-date.

*Selling, General and Administration Expenses.* Selling, general and administration expenses increased by 11.1%, or \$7.9 million, to \$79.0 million in the nine months ended October 28, 2017 from \$71.1 million for the nine months ended October 29, 2016. As a percentage of sales, selling, general and administration expenses increased to 57.5% for the nine months ended October 28, 2017, as compared to 54.8% for the nine months ended October 29, 2016. Excluding the impact of executive separation costs, impairment of property and equipment, and onerous contracts for the nine months ended October 28, 2017, as well as loss on disposal of property and equipment for the nine months ended October 29, 2016, selling, general and administration expenses increased to \$75.9 million in the nine months ended October 28, 2017 from \$67.6 million for the nine months ended October 29, 2016 due primarily to the hiring of additional staff to support the growth of the Company, including new stores, and higher store operating expenses to support the operations of 236 stores as of October 28, 2017 as compared to 225 stores as of October 29, 2016. As a percentage of sales, selling, general and administration expenses excluding these one-time costs increased to 55.2% from 52.1%, attributable to deleveraging of fixed costs due to the negative 4.5% comparable sales for the nine months ended October 28, 2017.

*Results from Operating Activities.* Results from operating activities decreased by \$8.7 million, to \$(16.2) million in the nine months ended October 28, 2017 from \$(7.5) million in the nine months ended October 29, 2016. Excluding the impact of executive separation costs, impairment of property and equipment, and onerous contracts for the nine months ended October 28, 2017, as well as loss on disposal of property and equipment for the nine months ended October 29, 2016, results from operating activities decreased by \$9.1 million, to \$(13.1) million from \$(4.0) million for the nine months ended October 29, 2016.

*Provision for Income Taxes (Recovery).* Recovery for income taxes increased by \$2.5 million, to a recovery of \$4.0 million for the nine months ended October 28, 2017 from a recovery of \$1.5 million for the nine months ended October 29, 2016. The increase in the recovery for income taxes was due primarily to lower results from operating activities. Our effective tax rates were 24.5% and 20.3% for the nine months ended October 28, 2017 and October 29, 2016, respectively. This increase in the effective tax rate is due primarily to the non-deductible items relative to the higher loss before income taxes versus the nine months ended October 29, 2016.

## Liquidity and Capital Resources

As at October 28, 2017 we had \$36.9 million of cash primarily held with major Canadian financial institutions. Our working capital was \$71.8 million as of October 28, 2017, compared to \$78.7 million as at January 28, 2017.

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 2017, we plan to spend approximately \$13.0-\$15.0 million on capital expenditures. We expect to construct, lease and open 11 new stores in Canada and 5 new stores in the United States, and renovate a number of existing stores. The remainder of the capital budget will be used 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. 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 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:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>October 28,</u>	<u>October 29,</u>	<u>October 28,</u>	<u>October 29,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Cash flows provided by (used in):</b>				
Operating activities	\$ (16,134)	\$ (22,255)	\$ (19,976)	\$ (24,826)
Investing activities	(3,498)	(6,175)	(9,295)	(16,358)
Financing activities	90	962	1,696	1,806
<b>Decrease in cash</b>	<b>\$ (19,542)</b>	<b>\$ (27,468)</b>	<b>\$ (27,575)</b>	<b>\$ (39,378)</b>

### Cash Flows Provided by (Used in) Operating Activities

Net cash flows used in operating activities decreased to \$(16.1) million for the three months ended October 28, 2017 from \$(22.3) million for the three months ended October 29, 2016. The decrease in the cash flows used in operating

activities was due primarily to the net loss for the quarter as well as investment in inventory to support the sales for the Holiday season. The improvement compared to last year is due to management efforts to improve inventory productivity.

Net cash used in operating activities decreased to \$(20.0) million for the nine months ended October 28, 2017 from \$(24.8) million for the nine months ended October 29, 2016. The decrease in the cash flows used in operating activities was due primarily to lower results from operating activities, partially offset by a reduction in inventory levels from year-end, as described above.

#### ***Cash Flows Provided by (Used in) Investing Activities***

Capital expenditures decreased by \$2.7 million, to \$3.5 million for the three months ended October 28, 2017, from \$6.2 million for the three months ended October 29, 2016. This decrease was primarily due to the number of new store build-outs and the timing of investments in infrastructure. We opened 3 new stores for the three months ended October 28, 2017 compared to 17 new stores for the three months ended October 29, 2016.

Capital expenditures decreased by \$7.1 million, to \$9.3 million for the nine months ended October 28, 2017, from \$16.4 million for the nine months ended October 29, 2016. This decrease was primarily due to the number of new store build-outs and the timing of investments in infrastructure. We opened 12 new stores for the nine months ended October 28, 2017 compared to 32 new stores for the nine months ended October 29, 2016.

#### ***Cash Flows Provided By Financing Activities***

Net cash flows provided by financing activities amounted to \$0.1 million for the three months ended October 28, 2017 due to proceeds from share issuances, compared to \$1.0 million for the three months ended October 29, 2016.

Net cash flows provided by financing activities amounted to \$1.7 million for the nine months ended October 28, 2017 due to proceeds from share issuances, compared to \$1.8 million for the nine months ended October 29, 2016.

#### ***Credit Facility with Bank of Montreal***

The Company has a credit arrangement (hereinafter referred to as “Credit Agreement”) with the Bank of Montreal (“BMO”). The Credit agreement provides for a three-year revolving term facility, maturing October 31, 2019, 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 October 28, 2017, 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 October 28, 2017, 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 28, 2017, 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 28, 2017 included in our Annual Report on Form 10-K dated April 12, 2017 and filed on April 13, 2017. There have been no material changes to the critical accounting policies and estimates since January 28, 2017, other than as described below.

## **Recently Issued Accounting Standards**

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

IFRS 9, “Financial Instruments”, for which the final version was issued in July 2014 by the IASB, replaces IAS 39, “Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements and related note disclosures. The Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses. The Company will perform a detailed assessment in the coming quarters to determine the extent of the impact. As we continue our evaluation, we will further clarify the expected impact of the adoption of the standard, which we do not believe will be material.

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 expects that the implementation of IFRS 15 will impact the allocation of revenue that is deferred in relation to its customer loyalty award programs. Revenue is currently allocated to the customer loyalty awards using the residual fair value method. Under IFRS 15, consideration will be allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices. The Company is currently assessing the impact of this change on its consolidated financial statements. As we continue our evaluation, we will further clarify the expected impact of the adoption of the standard, which we do not believe will be material.

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 has performed a preliminary assessment of the potential impact of the adoption of IFRS 16 on its consolidated financial statements. The Company expects the adoption of IFRS 16 will have a significant impact as the Company will recognize 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 not yet determined which transition method

it will apply or whether it will use the optional exemptions or practical expedients under the standard. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects, before the adoption of IFRS 16.

IFRIC 22, “Foreign Currency Transactions and Advance Consideration” (“IFRIC 22”). In December 2016, the IASB issued IFRIC 22, which addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is in the process of evaluating the impact of adopting the interpretation of IFRIC 22 on its consolidated financial statements.

IFRIC 23, “Uncertainty over Income Tax Treatments”, 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 Company is in the process of evaluating the impact of adopting the interpretation of IFRIC 23 on its consolidated financial statements.

### **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, 2017 and filed on April 13, 2017.

### **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 October 28, 2017. 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 October 28, 2017, 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(f) under the Exchange Act) during the nine-month period ended October 28, 2017, 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, 2017 and filed on April 13, 2017, 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.                              |

## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
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 7, 2017

By: /s/ Joel Silver

Name: Joel Silver

Title: President and 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, Joel Silver, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2017 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 7, 2017

/s/ Joel Silver

Joel Silver

President and 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, Howard Tafler, Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2017 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 7, 2017

/s/ Howard Tafler  
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 Howard Tafler  
 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 October 28, 2017, as filed with the Securities and Exchange Commission (the “Report”), I, Joel Silver, 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 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 7, 2017

/s/ Joel Silver

Joel Silver

President and Chief Executive Officer

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

In connection with the Quarterly Report of DAVIDsTEA Inc. (the “Company”) on Form 10-Q for the period ended October 28, 2017, as filed with the Securities and Exchange Commission (the “Report”), I, Howard Tafler, 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: December 7, 2017

/s/ Howard Tafler  
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Howard Tafler  
Chief Financial Officer