

EXPLANATORY NOTE

DAVIDsTEA Inc. (the “Company”) is filing this Form 10-Q/A (“Form 10-Q/A”) to amend its Quarterly Report on Form 10-Q for the period ended August 3, 2019, originally filed with the Securities and Exchange Commission (the “SEC”) on September 17, 2019 (“Original Filing”) to restate its unaudited condensed interim consolidated financial statements and related footnote disclosures for the period ended August 3, 2019. Consequently, the previously filed unaudited condensed interim consolidated financial statements for the period ended August 3, 2019 should no longer be relied upon. This Form 10-Q/A also amends certain other items in the Original Filing, as listed in “Items Amended in this Form 10 -Q/A” below.

Effects of the restatement

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

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

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

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

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

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

Consolidated Balance sheet

	August 3, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Right-of-use assets	68,230	(18,372)	49,858	-	49,858
Total assets	171,912	(18,372)	153,540	-	153,540
Deficit	(57,512)	(18,250)	(75,762)	-	(75,762)
Accumulated other comprehensive income	1,377	(122)	1,255	-	1,255
Total equity	57,766	(18,372)	39,394	-	39,394
Total liabilities and equity	171,912	(18,372)	153,540	-	153,540

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

	For the three months ended August 3, 2019					For the six months ended August 3, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Selling, general and administration expenses	27,237	4,326	31,563	-	31,563	55,946	18,250	74,196	(14,613)	59,583
Results from operating activities	(5,432)	(4,326)	(9,758)	-	(9,758)	(7,805)	(18,250)	(26,055)	14,613	(11,442)
Loss before income taxes	(7,018)	(4,326)	(11,344)	-	(11,344)	(11,344)	(18,250)	(29,277)	14,613	(14,664)
Net loss	(7,018)	(4,326)	(11,344)	-	(11,344)	(11,027)	(18,250)	(29,277)	14,613	(14,664)
Cumulative translation adjustment	136	119	255	-	255	(120)	(122)	(242)	-	(242)
Total comprehensive loss	(6,882)	(4,207)	(11,089)	-	(11,089)	(11,147)	(18,372)	(29,519)	14,613	(14,906)
Net loss per share	(0.27)	(0.17)	(0.44)	-	0.44	(0.42)	(0.70)	(1.12)	0.56	(0.56)

Consolidated statement of cash flows

	For the three months ended August 3, 2019					For the six months ended August 3, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Net loss	(7,018)	(4,326)	(11,344)	—	(11,344)	(11,027)	(18,250)	(29,277)	14,613	(14,664)
Amortization of right-of-use assets	3,813	—	3,813	(699)	3,114	7,604	—	7,604	(1,388)	6,216
Impairment of right-of-use assets	—	5,025	5,025	—	5,025	—	5,025	5,025	—	5,025
Cash flows related to operating activities	3,083	—	3,083	—	3,083	3,443	—	3,443	—	3,443

Consolidated statement of equity (deficit)

	For the six months ended August 3, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
IFRS 16 adoption adjustment	1,280	-	1,280	(14,613)	(13,333)
Adjusted balance at beginning of period	68,736	-	68,736	(14,613)	54,123
Net loss	(11,027)	(18,250)	(29,277)	14,613	(14,664)
Accumulated other comprehensive loss	(120)	(122)	(242)	-	(242)
Total comprehensive loss	(11,147)	(18,372)	(29,519)	14,613	(14,906)

Internal Control Considerations

In light of the restatement, our Chief Executive Officer and Chief Financial Officer have reassessed their evaluation of the effectiveness of the design and operation of its disclosure controls over financial reporting as of August 3, 2019 and concluded that the Company did not maintain effective disclosure control and procedures due to a material weakness in the Company's internal control over financial reporting that existed at that date. The material weakness that existed on those dates is described in Part I, Item 4 – Controls and Procedures in this Form 10-Q/A.

Items Amended in this Form 10-Q/A

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

- Part I, Item 1. Financial Statements
- Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I, Item 4. Controls and Procedures

- Part II Item 1A. Risk Factors
- Part II, Item 6. Exhibits

Signatures

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

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

Restatement of Other Financial Statements

The Company is also concurrently filing an amended Quarterly Report on Form 10-Q/A for its first quarter period ended May 4, 2019 (the “Q1 Form 10-Q/A”) to amend and restate the previously issued unaudited condensed consolidated financial statements as a result of the same change in accounting policies described above and originally filed with the SEC on June 18, 2019.

DAVIDsTEA Inc.

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

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

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

Part I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited and in thousands of Canadian dollars]

	As at	
	August 3, 2019 \$ (Restated - Note 3)	February 2, 2019 \$
ASSETS		
Current		
Cash	29,725	42,074
Accounts and other receivables	[Note 12] 3,913	3,681
Inventories	[Note 5] 27,893	34,353
Income tax receivable	3,946	4,107
Prepaid expenses and deposits	9,890	8,819
Total current assets	75,367	93,034
Property and equipment	21,794	23,788
Intangible assets	6,521	5,678
Right-of-use assets	[Notes 3 and 6] 49,858	—
Total assets	153,540	122,500
LIABILITIES AND EQUITY		
Current		
Trade and other payables	13,810	20,951
Deferred revenue	5,763	6,241
Current portion of provisions	[Note 3] —	3,714
Current portion of lease liabilities	[Note 3] 16,416	—
Total current liabilities	35,989	30,906
Deferred rent and lease inducements	[Note 3] —	8,698
Provisions	[Note 3] —	15,440
Non-current portion of lease liabilities	[Note 3] 78,157	—
Total liabilities	114,146	55,044
Commitments and contingencies		
Equity		
Share capital	[Note 8] 112,792	112,519
Contributed surplus	1,109	1,400
Deficit	(75,762)	(47,960)
Accumulated other comprehensive income	1,255	1,497
Total equity	39,394	67,456
Total liabilities and equity	153,540	122,500

See accompanying notes.

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

AND COMPREHENSIVE INCOME (LOSS)

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

		For the three months ended		For the six months ended	
		August 3, 2019 \$ (Restated - Note 3)	August 4, 2018 \$	August 3, 2019 \$ (Restated - Note 3)	August 4, 2018 \$
Sales	[Note 13]	39,167	40,167	83,432	85,953
Cost of sales		17,362	22,824	35,291	45,918
Gross profit		21,805	17,343	48,141	40,035
Selling, general and administration expenses	[Note 10]	31,563	31,350	59,583	55,746
Results from operating activities		(9,758)	(14,007)	(11,442)	(15,711)
Finance costs		1,781	78	3,608	157
Finance income		(195)	(215)	(386)	(452)
Loss before income taxes		(11,344)	(13,870)	(14,664)	(15,416)
Provision for income tax (recovery)	[Note 9]	—	(3,872)	—	(4,216)
Net loss		(11,344)	(9,998)	(14,664)	(11,200)
Other comprehensive loss					
Items to be reclassified subsequently to income:					
Unrealized net gain on forward exchange contracts	[Note 14]	—	87	—	794
Realized net loss on forward exchange contracts reclassified to inventory		—	(578)	—	(140)
Provision for income tax recovery		—	131	—	(175)
Cumulative translation adjustment		255	(90)	(242)	(411)
Other comprehensive income (loss), net of tax		255	(450)	(242)	68
Total comprehensive loss		(11,089)	(10,448)	(14,906)	(11,132)
Net loss per share:					
Basic and fully diluted	[Note 11]	(0.44)	(0.39)	(0.56)	(0.43)
Weighted average number of shares outstanding					
Basic and fully diluted	[Note 11]	26,056,520	25,910,086	26,038,128	25,878,982

See accompanying notes.

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited and in thousands of Canadian dollars]

	For the three months ended		For the six months ended	
	August 3, 2019 \$ (Restated - Note 3)	August 4, 2018 \$	August 3, 2019 \$ (Restated - Note 3)	August 4, 2018 \$
OPERATING ACTIVITIES				
Net loss	(11,344)	(9,998)	(14,664)	(11,200)
Items not affecting cash:				
Depreciation of property and equipment	1,359	1,722	2,684	3,408
Amortization of intangible assets	456	346	855	528
Amortization of right-of-use assets	3,114	—	6,216	—
Loss on disposal of property and equipment	22	14	22	14
Impairment of property, equipment and right-of-use assets	5,025	2,560	5,025	2,560
Interest on lease liabilities	1,781	—	3,608	—
Deferred rent	—	46	—	(91)
Recovery for onerous contracts	—	2,068	—	1,892
Stock-based compensation expense	143	(393)	270	(98)
Amortization of financing fees	—	20	—	40
Accretion on provisions	—	58	—	117
Deferred income taxes	—	(2,302)	—	(1,346)
Sub-total	556	(5,859)	4,016	(4,176)
Net change in other non-cash working capital balances related to operations	2,527	(6,579)	(573)	(15,368)
Cash flows related to operating activities	3,083	(12,438)	3,443	(19,544)
FINANCING ACTIVITIES				
Proceed from issuance of common shares pursuant to exercise of stock options	—	74	—	74
Payment of lease liabilities	(5,799)	—	(11,622)	—
Cash flows related to financing activities	(5,799)	74	(11,622)	74
INVESTING ACTIVITIES				
Additions to property and equipment	(319)	(740)	(734)	(1,668)
Additions to intangible assets	(958)	(1,141)	(1,663)	(2,723)
Loan advance to a Company controlled by an executive employee	(1,773)	—	(1,773)	—
Cash flows related to investing activities	(3,050)	(1,881)	(4,170)	(4,391)
Decrease in cash during the period	(5,766)	(14,245)	(12,349)	(23,861)
Cash, beginning of the period	35,491	53,868	42,074	63,484
Cash, end of the period	29,725	39,623	29,725	39,623
Supplemental Information				
Cash paid for:				
Interest	—	—	—	—
Income taxes (classified as operating activity)	—	2	—	2
Cash received for:				
Interest	210	210	405	443
Income taxes (classified as operating activity)	168	—	168	—

See accompanying notes.

DAVIDsTEA Inc.

Incorporated under the laws of Canada

INTERIM CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)

[Unaudited and in thousands of Canadian dollars]

	Share Capital \$	Contributed Surplus \$	Deficit \$	Accumulated Other Comprehensive Income			Total Equity \$
				Accumulated Derivative Financial Instrument Adjustment \$	Accumulated Foreign Currency Translation Adjustment \$	Accumulated Other Comprehensive Income \$	
Balance, February 3, 2018	111,692	2,642	(14,721)	(167)	1,922	1,755	101,368
Net loss for the six months ended August 4, 2018	—	—	(11,200)	—	—	—	(11,200)
Other comprehensive loss	—	—	—	479	(411)	68	68
Total comprehensive loss	—	—	(11,200)	479	(411)	68	(11,132)
Issuance of common shares	153	(79)	—	—	—	—	74
Common shares issued on vesting of restricted stock units	636	(1,305)	282	—	—	—	(387)
Stock-based compensation expense	—	(98)	—	—	—	—	(98)
Income tax impact associated with stock options	—	—	—	—	—	—	—
Balance, August 4, 2018	112,481	1,160	(25,639)	312	1,511	1,823	89,825
Balance, February 2, 2019	112,519	1,400	(47,960)	—	1,497	1,497	67,456
IFRS 16 adoption adjustment (1)	—	—	(13,333)	—	—	—	(13,333)
Adjusted balance at beginning of period (1)	112,519	1,400	(61,293)	—	1,497	1,497	54,123
Net loss for the six months ended August 3, 2019 (1)	—	—	(14,664)	—	—	—	(14,664)
Other comprehensive loss	—	—	—	—	(242)	(242)	(242)
Total comprehensive loss	—	—	(14,664)	—	(242)	(242)	(14,906)
Issuance of common shares	—	—	—	—	—	—	—
Common shares issued on vesting of restricted stock units	273	(561)	195	—	—	—	(93)
Stock-based compensation expense	—	270	—	—	—	—	270
Balance, August 3, 2019	112,792	1,109	(75,762)	—	1,255	1,255	39,394

(1) See Restated – Note 3

See accompanying notes.

DAVIDsTEA Inc.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six-month periods ended August 3, 2019 and August 4, 2018 [Unaudited]

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

1. CORPORATE INFORMATION

The unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the three and six-month periods ended August 3, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on September 17, 2019. The amended and restated unaudited condensed interim consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the three-month period ended August 3, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on December 20, 2019. The Company is incorporated and domiciled in Canada and its shares are publicly traded on the NASDAQ Global Market under the symbol “DTEA”. The registered office is located at 5430, Ferrier St., Town of Mount-Royal, Quebec, Canada, H4P 1M2.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

Effects of the restatement

Based on the impairment test performed at February 3, 2019 upon the voluntary change to the Company’s method of transition to IFRS 16 to eliminate the use of the practical expedient, the Company’s ROU assets were impaired upon initial adoption by \$32,487 as compared to the application of the previously recognized onerous lease provisions of \$19,154 against the ROU assets. The difference that results from performing an IAS 36 impairment test at February 3, 2019 and the application of the practical expedient related to onerous leases results from a difference in the application of certain assumptions required under the two standards. The Company previously had recorded a reduction to the deficit of \$1,280 on transition to IFRS 16. After the application of the voluntary change in

accounting policy, the deficit increased by \$14,613 to \$61,293. The additional reduction in the initial value of the ROU assets resulted in a decrease in amortization expense in the three-month periods ended May 4, 2019 and August 3, 2019 of \$689 and \$699 respectively.

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

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

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

Consolidated Balance sheet

	August 3, 2019				
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Right-of-use assets	68,230	(18,372)	49,858	-	49,858
Total assets	171,912	(18,372)	153,540	-	153,540
Deficit	(57,512)	(18,250)	(75,762)	-	(75,762)
Accumulated other comprehensive income	1,377	(122)	1,255	-	1,255
Total equity	57,766	(18,372)	39,394	-	39,394
Total liabilities and equity	171,912	(18,372)	153,540	-	153,540

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

	For the three months ended August 3, 2019				For the six months ended August 3, 2019					
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Selling, general and administration expenses	27,237	4,326	31,563	-	31,563	55,946	18,250	74,196	(14,613)	59,583
Results from operating activities	(5,432)	(4,326)	(9,758)	-	(9,758)	(7,805)	(18,250)	(26,055)	14,613	(11,442)
Loss before income taxes	(7,018)	(4,326)	(11,344)	-	(11,344)	(11,027)	(18,250)	(29,277)	14,613	(14,664)
Net loss	(7,018)	(4,326)	(11,344)	-	(11,344)	(11,027)	(18,250)	(29,277)	14,613	(14,664)
Cumulative translation adjustment	136	119	255	-	255	(120)	(122)	(242)	-	(242)
Total comprehensive loss	(6,882)	(4,207)	(11,089)	-	(11,089)	(11,147)	(18,372)	(29,519)	14,613	(14,906)
Net loss per share	(0.27)	(0.17)	(0.44)	-	0.44	(0.42)	(0.70)	(1.12)	0.56	(0.56)

Consolidated statement of cash flows

	For the three months ended August 3, 2019				For the six months ended August 3, 2019					
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated
Net loss	(7,018)	(4,326)	(11,344)	—	(11,344)	(11,027)	(18,250)	(29,277)	14,613	(14,664)
Amortization of right-of-use assets	3,813	—	3,813	(699)	3,114	7,604	—	7,604	(1,388)	6,216
Impairment of right-of-use assets	—	5,025	5,025	—	5,025	—	5,025	5,025	—	5,025
Cash flows related to operating activities	3,083	—	3,083	—	3,083	3,443	—	3,443	—	3,443

Consolidated statement of equity (deficit)

	For the six months ended August 3, 2019					
	As previously reported	Correction of error - Adjustment	Correction of error - Restated	Change in policy - Adjustment	Restated	
IFRS 16 adoption adjustment		1,280	-	1,280	(14,613)	(13,333)
Adjusted balance at beginning of period		68,736	-	68,736	(14,613)	54,123
Net loss		(11,027)	(18,250)	(29,277)	14,613	(14,664)
Accumulated other comprehensive loss		(120)	(122)	(242)	-	(242)
Total comprehensive loss		(11,147)	(18,372)	(29,519)	14,613	(14,906)

IFRS 16 – Leases

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

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

The Company has adopted IFRS 16 as at February 3, 2019. The adoption of IFRS 16 had a significant impact as the Company recognized new assets and liabilities for its operating leases of retail stores. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets

and interest expense on lease liabilities. The Company has elected to apply the modified retrospective method by setting right-of-use assets based on the lease liability at the date of initial application, adjusted by the amount of any prepaid or accrued lease payments, and has applied the following practical expedients:

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

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

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

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

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

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

February 3,

2019

\$

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

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

b) Summary of new accounting policies

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. Amortization expense is recorded in selling, general and administrative expense.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

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

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

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

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

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

	Right-of use assets	Lease Liability
	\$	\$
	(Restated - Note 3)	
Balance, February 3, 2019	60,983	102,168
Amortization expense	(6,216)	—
Impairment of right-of-use assets	(5,025)	
Interest expense	—	3,608
Payments	—	(11,622)
CTA	116	419
Balance, August 3, 2019	49,858	94,573
Presented as:		
Current	—	16,416
Non-Current	49,858	78,157

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

5. INVENTORIES

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

6. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

For the three and six months ended August 3, 2019, an assessment of impairment indicators was performed which caused the Company to review the recoverable amount of the property, equipment and right-of-use assets for certain cash generating units (“CGUs”) with an indication of impairment. CGUs reviewed included stores performing below the Company’s expectations.

As a result, for the three and six months ended August 3, 2019, an impairment loss for the right-of-use assets of \$5,025 [August 4, 2018 — \$2,560 related to store leasehold improvements, furniture and equipment, computer hardware] was recorded in the Canada and U.S. segments for \$2,480 and \$2,545, respectively [August 4, 2018 — \$2,371 and \$189, respectively]. These losses were determined by comparing the carrying amount of the CGU’s net assets with their respective recoverable amounts based on value in use. Value in use of \$3,924 [August 4, 2018 — nil] 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 discount rate of 11.9% [August 4, 2018 — 11.9%]. A reversal of impairment occurs when previously impaired CGUs see improved financial results. For the three and six months ended August 3, 2019, no impairment losses were reversed [August 4, 2018 — nil]. Impairment losses are reversed only to the extent that the carrying amounts of the CGU’s net assets do not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

7. REVOLVING FACILITY

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

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

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

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

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

The current lending agreement will be terminated on the earlier of (a) January 24, 2020, and (b) the company securing new financing. The Company is in good faith discussions with BMO to install an asset based lending facility that will provide a revolving facility at commercial reasonable terms.

8. SHARE CAPITAL

Authorized

An unlimited number of Common shares.

Issued and outstanding

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

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

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

Stock-based compensation

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

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

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

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

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

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

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

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

9. INCOME TAXES

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

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

	For the three months ended				For the six months ended			
	August 3,		August 4,		August 3,		August 4,	
	2019		2018		2019		2018	
	(Restated - Note 3)				(Restated - Note 3)			
	%	\$	%	\$	%	\$	%	\$
Income tax recovery — statutory rate	26.8	(3,037)	26.9	(3,726)	26.8	(3,930)	26.9	(4,142)
Increase (decrease) in provision for income tax (recovery) resulting from:								
Non-deductible items	(0.4)	43	1.0	(140)	(0.5)	76	0.4	(69)
Unrecognized deferred income tax assets	(26.4)	2,994	—	—	(26.3)	3,854	—	(5)
Other	—	—	—	(6)	—	—	—	—
Income tax provision (recovery) — effective tax rate	—	—	27.9	(3,872)	—	—	27.3	(4,216)

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

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

10. SELLING, GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended		For the six months ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
	\$	\$	\$	\$
	(Restated - Note 3)		(Restated - Note 3)	
Wages, salaries and employee benefits	14,792	15,784	31,309	32,264
Depreciation of property and equipment	1,359	1,722	2,684	3,408
Amortization of intangible assets	456	346	855	528
Amortization right-of-use asset	3,114	—	6,216	—
Loss on disposal of property and equipment	22	14	22	14
Impairment of property, equipment and right-of-use assets	5,025	2,560	5,025	2,560
Utilization of onerous contract	—	(1,354)	—	(2,694)
Recovery of provision for onerous contracts	—	2,068	—	1,892
Stock-based compensation	143	(393)	270	(98)
Executive separation cost related to salary	—	717	—	717
Strategic review and proxy contest	—	2,717	—	3,511
Other selling, general and administration	6,652	7,169	13,202	13,644
	<u>31,563</u>	<u>31,350</u>	<u>59,583</u>	<u>55,746</u>

11. EARNINGS PER SHARE

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

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

	For the three months ended		For the six months ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
	\$	\$	\$	\$
	(Restated - Note 3)		(Restated - Note 3)	
Net loss for basic EPS	(11,344)	(9,998)	(14,664)	(11,200)
Weighted average number of shares outstanding:				
Basic and fully diluted	26,056,520	25,910,086	26,038,128	25,878,982
Net loss per share:				
Basic and fully diluted	(0.44)	(0.39)	(0.56)	(0.43)

As a result of the net loss during the three and six-month periods ended August 3, 2019 and August 4, 2018, the stock options and restricted stock units disclosed in Note 8 were anti-dilutive. Accordingly, diluted net loss per share for each period was the same as basic net loss per share.

12. RELATED PARTY DISCLOSURES

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

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

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

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

During the second quarter of 2019, the Company entered into a secured loan agreement with Oink Oink Candy Inc., doing business as "Squish", as borrower, and Rainy Day Investments Ltd. ("RDI"), as guarantor pursuant to which the Company agreed to lend to Squish an amount of up to \$4 million. As of August 3, 2019, \$1.8 million was outstanding under the agreement. The loan bears interest, payable monthly, at a rate of 1% over Bank of Montreal's prime rate, which currently stands at 3.95%. RDI has guaranteed all of Squish's obligations to the Company and, as security in full for the guarantee, has given a movable hypothec (or lien) in favour of the Company on its shares of DAVIDsTEA. Squish is a company controlled by Sarah Segal, an officer of DAVIDsTEA. RDI, the principal shareholder of DAVIDsTEA, is controlled by Herschel Segal, Executive Chairman, Interim Chief Executive Officer and a director of DAVIDsTEA. The Company and Squish previously entered into a Collaboration and Shared Services Agreement pursuant to which they collaborate on and share various services and infrastructure.

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

13. SEGMENT INFORMATION

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

The Company derives revenue from the following products:

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

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

	August 3, 2019 (1)	February 2, 2019
	\$	\$
	(Restated - Note 3)	
Canada	67,518	27,996
US	10,655	1,470
Total	<u>78,173</u>	<u>29,466</u>

(1) Includes Right-of-use assets of \$40,578 in Canada and \$9,280 in US.

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

	For the three months ended			For the six months ended		
	August 3, 2019			August 3, 2019		
	(Restated - Note 3)			(Restated - Note 3)		
	Canada	US	Consolidated	Canada	US	Consolidated
	\$	\$	\$	\$	\$	\$
Sales	30,340	8,827	39,167	64,530	18,902	83,432
Cost of sales	13,925	3,437	17,362	28,039	7,252	35,291
Gross profit	16,415	5,390	21,805	36,491	11,650	48,141
Selling, general and administration expenses (allocated)	14,697	4,462	19,159	29,573	9,277	38,850
Impairment of property, equipment and right-of-use assets	2,480	2,545	5,025	2,480	2,545	5,025
Results from operating activities before corporate expenses	(762)	(1,617)	(2,379)	4,438	(172)	4,266
Selling, general and administration expenses (non-allocated)			7,379			15,708
Results from operating activities			(9,758)			(11,442)
Finance costs			1,781			3,608
Finance income			(195)			(386)
Loss before income taxes			(11,344)			(14,664)

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

14. FINANCIAL RISK MANAGEMENT

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

Currency Risk — Foreign Exchange Risk

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

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

The Company's foreign exchange exposure is as follows:

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

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

Market Risk — Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets with variable interest rates. The Company is exposed to cash flow risk under the Revolving Facility which bears interest at variable interest rates (Note 7). As at August 3, 2019, the Company did not have any borrowings on the Revolving Facility.

Liquidity Risk

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

As at August 3, 2019, the Company had \$29,725 in cash. In addition, the Company has a Revolving Facility of \$15,000, the full amount of which remained un-drawn as at August 3, 2019. Access to this Facility is further described in Note 7.

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

Credit Risk

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

Fair Values

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

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