

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 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

DAVIDsTEA Inc.

(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction of
incorporation or organization)

98-1048842
(I.R.S. Employer
Identification Number)

5430 Ferrier
Mount-Royal, Québec, Canada, H4P 1M2
(Address of principal executive offices)

(888) 873-0006
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common shares, no par value per share	NASDAQ Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	
		Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act). Yes ☐ No ☒

As of July 30, 2016, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the registrant's Common Shares held by non-affiliates was US\$160,772,848.

As of April 11, 2017, 25,455,510 common shares of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: N/A

EXPLANATORY NOTE

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 on the reporting forms available to foreign private issuers, although the Company is not required to do so. We are permitted to file our audited consolidated financial statements with the SEC under International Financial Reporting Standards (“IFRS”), without a reconciliation to U.S. generally accepted accounting principles (“GAAP”). As a result, we do not prepare a reconciliation of our results to U.S. GAAP. It is possible that certain of our accounting policies could be different from U.S. GAAP.

The Company prepares and files a management proxy circular and related material under Canadian requirements. As the Company’s management proxy circular is not filed pursuant to Regulation 14A, the Company may not incorporate by reference information required by Part III of this Form 10-K from its management proxy circular.

In this annual report on Form 10-K, unless otherwise specified, all monetary amounts are in Canadian dollars, all references to “\$,” “C\$,” “CAD,” “CND\$,” “CDN\$,” “CDN,” “Canadian dollars” and “dollars” mean Canadian dollars and all references to “U.S. dollars,” “US\$” and “USD” mean U.S. dollars.

All references to our website contained herein do not constitute incorporation by reference of information contained on such websites and such information should not be considered part of this document.

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PART 1

Exchange Rate Data

The following table sets forth, for the periods indicated, the high and low exchange rates between the Canadian dollar and the U.S. dollar expressed in the Canadian dollar equivalent of one U.S. dollar, and the average exchange rate for the periods indicated. Averages for year-end periods are calculated by using the exchange rates on the last day of each full month during the relevant period and the last available exchange rate in January during the relevant fiscal year. These rates are based on the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York set forth in the H.10 statistical release of the Federal Reserve Board.

On April 7, 2017, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was US\$1.00 = \$1.3396.

Year Ended	Period End Rate	Period Average Rate	High Rate	Low Rate
January 28, 2012	\$1.00	\$0.99	\$0.94	\$1.06
January 26, 2013	\$1.01	\$1.00	\$0.97	\$1.04
January 25, 2014	\$1.11	\$1.04	\$1.00	\$1.11
January 31, 2015	\$1.27	\$1.11	\$1.06	\$1.27
January 30, 2016	\$1.41	\$1.30	\$1.46	\$1.20
January 28, 2017	\$1.31	\$1.32	\$1.40	\$1.25

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and there are, or may be deemed to be, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the “safe harbor” provisions of the Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “expects,” “may,” “will,” “should,” “could,” “seeks,” “projects,” “approximately,” “intends,” “plans,” “estimates” or “anticipates,” or, in each case, their negatives or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Annual 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, competitive strengths and differentiators, growth strategy and opportunities for expansion, long-term Adjusted EBITDA margin potential, dividend policy, impact of the macroeconomic environment, properties, outcome of litigation and legal proceedings, use of cash and operating and capital expenditures, impact of new accounting pronouncements, impact of improvements to internal control and financial reporting.

While we believe these expectations and projections are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the risk factors listed under Item 1A. Risk Factors, as well as other cautionary language in this Form 10-K.

Actual results may differ materially from those in the forward-looking statements as a result of various factors, including but not limited to, the following:

- *Our ability to successfully implement our growth strategy;*
- *Our limited operating experience and limited brand recognition in the United States;*
- *Significant competition within our industry;*
- *Our ability to generate sufficient cash flow to meet our growth expectations;*
- *The possibility that our expanded store base may not be as profitable as our existing store base;*

- *The effect of a decrease in customer traffic to the shopping malls, centers and street locations where our stores are located;*
- *Our ability to attract and retain employees that embody our culture, including Tea Guides and store and district managers and regional directors;*
- *Changes in consumer preferences and economic conditions affecting disposable income;*
- *Our ability to source, develop and market new varieties of teas, tea accessories and food and beverages;*
- *Our reliance upon the continued retention of key personnel;*
- *The impact from real or perceived quality or safety issues with our teas, tea accessories and food and beverages;*
- *Our ability to obtain quality products from third-party manufacturers and suppliers on a timely basis or in sufficient quantities;*
- *The impact of weather conditions, natural disasters and manmade disasters on the supply and price of tea;*
- *Actual or attempted breaches of data security;*
- *The impact of a regional, national or global health epidemic;*
- *The costs of protecting and enforcing our intellectual property rights and defending against intellectual property claims brought by others;*
- *Fluctuations in exchange rates; and*
- *The seasonality of our business.*

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. We will not undertake and specifically decline any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur.

Forward-looking statements speak only as of the date of this Form 10-K. 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-K, 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-K 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.

ITEM 1. BUSINESS

DAVIDsTEA is a corporation incorporated under the *Canada Business Corporation Act* and domiciled in Canada. DAVIDsTEA's common shares trade on the NASDAQ Global Market under the symbol "DTEA". Unless the context otherwise requires, the terms "we," "our," "us," "DAVIDsTEA" and the "Company" refer to DAVIDsTEA Inc. and its subsidiary. All references to "Fiscal 2014" are to the Company's fiscal year ended January 31, 2015. All references to "Fiscal 2015" are to the Company's fiscal year ended January 30, 2016. All references to "Fiscal 2016" are to the Company's fiscal year ended January 28, 2017. The

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

2016 Company Highlights

- Our sales grew to \$216.0 million in Fiscal 2016 from \$180.7 million in Fiscal 2015, representing a 19.5% growth in sales.
- We opened 38 net new stores this year, opening 25 in Canada and 13 net in the US, for a total of 231 company-operated stores as at January 28, 2017.

Our Company

DAVIDsTEA is a growing branded retailer of specialty tea, offering a differentiated selection of proprietary loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages primarily through 231 company-operated DAVIDsTEA stores as of January 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. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea.

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. We design our stores with a modern and simple aesthetic that, coupled with our teal-colored logo, create an inviting atmosphere and stand in stark contrast to common perceptions of tea as a more traditional product. Our in-store "Tea Guides" help novice and experienced tea drinkers alike select from the approximately 150 premium teas and tea blends featured on our "Tea Wall," which is the focal point of our stores. We replicate our store experience online by engaging users with rich content that allows them to easily explore their options amongst our many tea and tea-related offerings.

We sell a majority of our products primarily through our company-operated retail stores and e-commerce site, giving us control of the presentation of our brand as well as greater interaction with the customer, which increases our pace of innovation. We have a dedicated and highly experienced product development team that is constantly creating new tea blends using high-quality ingredients from around the world. We bring newness and capitalize on our product development capabilities with approximately 75 new tea blends each year that we rotate into our offering on a continuous basis. We also focus on product innovation in our pre-packaged teas, tea sachets and tea-related gifts, accessories and food and beverages, providing our customers with fun, inventive and more convenient ways to enjoy tea. We believe that our product development platform and level of innovation have helped us earn a strong and loyal customer following that is passionate about DAVIDsTEA.

The strong performance of our stores across geographies demonstrates the appeal of our brand and underscores our growth opportunity. Given our retail store base, our e-commerce site and the appeal of our brand, we believe we are well positioned to take advantage of the significant growth opportunity across North America. Consistent with our stores, davidstea.com features our innovative products while offering expertise, community and numerous tools to aid the discovery and exploration of tea. During Fiscal 2016, approximately 66% of our revenue was driven by the sale of loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts that consumers enjoy at home, on-the-go or at work. The balance of our revenue was driven by tea accessories, 25%, and food and beverages, 9%. See Note 23 to our consolidated financial statements for information regarding our revenues by product category for each of the past three fiscal years as well as information about our geographic operating segments.

We believe our business model is based on innovation, quality and the customer experience. These attributes have resulted in strong financial results, as evidenced by the following:

- Thirty consecutive quarters of positive comparable sales growth through the end of Fiscal 2016.
- Our comparable store sales increased by 2.2% in Fiscal 2016, 6.6% in Fiscal 2015 and 11.1% in Fiscal 2014.
- The growth of our store base from 70 stores in Fiscal 2011 to 231 stores in Fiscal 2016, representing a 27% compound annual growth rate. As of January 28, 2017, we had a net total of 38 more stores than as at January 30, 2016.
- An increase in sales from \$41.9 million in Fiscal 2011 to \$216.0 million in Fiscal 2016. Sales in Fiscal 2016 were approximately 19.5% higher than in Fiscal 2015.

Our Market and Competition

We participate in the large and growing global tea market which, combined with the relatively low percentage of tea sales in North America, make our market opportunity highly attractive.

The Canadian and U.S. tea markets are highly fragmented. We compete with a large number of relatively small independently owned tea retailers and a number of regional and national tea retailers, as well as retailers of grocery products, including loose-leaf teas, tea sachets and tea-related beverages. We also compete with other vendors of loose-leaf teas, tea sachets and ready-to-drink teas, such as club stores, wholesalers and Internet suppliers, as well as with houseware retailers and suppliers that offer teawares and related accessories. As we continue to expand geographically, we expect to encounter additional regional and local competitors.

We believe we differentiate ourselves from our competitors on the basis of our distinct retail experience, the broad demographic appeal of our brand, innovative tea products, the effectiveness of our grassroots marketing strategy, our versatile store economics and our passionate customer-focused culture supported by our experienced management team and dedicated board members.

We believe that our brand, passion for tea and breadth of offering encourage our customers to view tea as fresh and fun. The clean, modern aesthetic of our retail concept communicates the newness and innovation behind our brand. The DAVIDsTEA retail experience is led by our Tea Guides, who share our knowledge of tea through a highly interactive and immersive customer experience of sampling and educating. They show our customers that tea is easy to prepare, comes in a variety of great flavors and is suitable for multiple occasions. It is this customer interaction combined with the high-quality teas that has allowed us to develop strong customer loyalty.

We believe that our fresh approach to tea gives us a broad, multi-generational appeal and, coupled with several key consumer trends such as health and wellness will help support our long-term growth. We focus on constant innovation to improve the taste and presentation of our existing teas and tea blends while creating new offerings that delight our customers. We seek to develop creative tea-related gifts and accessories that are innovative and make steeping tea easy at home or on-the-go. We believe that our focus on innovation and design keeps existing customers engaged while also attracting new customers to our brand.

We believe our field-based marketing and social media approach build brand awareness and drive customers to our stores and our e-commerce site. One aspect of this effort is our events sponsorship group, which we believe is a differentiated capability that allows us to create excitement for our brand by engaging directly in the communities around our stores and drive store visits by offering product.

We believe there is an attractive, long-term growth opportunity for our store base in North America. Our sales are currently substantially derived from sales in Canada, which accounted for 84%, 86%, and 91% of net sales in Fiscal 2016, Fiscal 2015 and Fiscal 2014. We generated 16%, 14%, and 9% of our net sales in the United States in Fiscal 2016, Fiscal 2015 and Fiscal 2014.

We will continue to expand our customer base and build our brand visibility and awareness, in part, through further development of our omni-channel strategy in North America, with a focus on the alternative sales channel. We believe that we have substantial room to grow our alternative sales channel, by offering our products to hotels, restaurants and institutions, office and workplace locations and food services, as well as through corporate gifting and other areas.

Our Stores and Operations

Our Stores

As of January 28, 2017, our retail footprint consisted of 181 stores in Canada and 50 stores in the United States. Our retail stores are located primarily within malls, including lifestyle centers and outlets, and on street locations. Each store exterior prominently displays the DAVIDsTEA teal signage. In Fiscal 2016, our average store was approximately 900 square feet. We have rapidly pursued new store growth, having significantly increased our store base from one store in Fiscal 2008 to 231 stores as of January 28, 2017. See Note 23 to our consolidated financial statements for information regarding our long-lived assets in Canada and the US.

Distinctive Retail Experience

The DAVIDsTEA experience starts with our people both in stores, our Tea Guides, and at our service support center. Our people's knowledge and passion permeate our culture and are rooted in a deep knowledge of, and desire to share, the compelling attributes of tea. Our modern and simple-aesthetic stores, coupled with our teal-colored logo, create an inviting atmosphere and stand in stark contrast to common perceptions of tea as a more traditional product. A key element of the retail experience is our "Tea Wall," a focal point of the store, which displays approximately 150 premium teas and tea blends. Our Tea Guides help create a highly interactive and immersive customer experience and we strive to make tea a multi-sensory experience. Indeed, they facilitate the 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. Every visit to our stores is designed to create a sense of adventure for our customers, from novice and experienced tea drinkers alike, as our knowledgeable, personable and passionate Tea Guides assist our customers in navigating the "Tea Wall" by selecting a variety of teas for customers to smell based on their taste preferences.

Site Selection and New Store Model

We seek to open stores in strategic locations that support the brand image, targeting high customer traffic locations primarily within malls, including lifestyle centers and outlets, and on street locations. We employ a rigorous analytical process to identify new store locations. For every store location selected, our real estate team prepares a detailed financial plan, which is evaluated by our President and Chief Executive Officer, our Chief Financial Officer and members of our board. Our real estate team, led by our Head of Global Real Estate and Store Development, spends considerable time evaluating prospective sites. We also actively monitor and manage the performance of our stores and seek to incorporate information learned through the monitoring process into our analytic process and future site selection decisions.

Store Management, Culture and Training

We are guided by a philosophy that recognizes customer service and the importance of delivering optimal performance, allowing us to identify and reward teams that meet our high performance standards. We use store-level scorecards that report key performance indicators. We provide our store managers with a number of analytical tools to support our store operations and assist them in attaining optimum store performance. These tools include key performance indicator reports, coaching logs for one-on-one meetings, weekly one-on-one meetings between our store managers and district managers and annual evaluations. While our focus is on the overall performance of the team and our stores, we provide incentives to team members, store managers and district managers.

We have developed a distinctive culture that inspires in our team members a passion for tea. Our culture is also focused on customer service through comprehensive training, career development and individual enrichment. We believe our culture allows us to attract knowledgeable, passionate, fun and motivated team members who are driven to succeed.

- ***Passion for Tea.*** We believe our passionate and fun Tea Guides are a major element of our retail experience. We seek to recruit, hire, train, retain and promote qualified, knowledgeable and enthusiastic team members who share our passion for tea and strive to deliver an extraordinary retail experience to our customers.
- ***Extensive Training.*** We have specific training and certification requirements for all new team members, including undergoing food handlers' certification and fifteen hours of foundational training. This process helps ensure that all team members educate our customers and execute our standards accurately and consistently. As team members progress to the assistant manager and manager levels, they undergo additional weeks of training in sales, operations and management.
- ***Career Development and Individual Enrichment.*** We track and reward team member performance, which we believe incentivizes excellence and helps us identify top performers and thus maintain a sufficient talent pool to support our growth. Many of our store managers and district managers are promoted from within our organization. We are guided by a philosophy that recognizes performance, allowing us to identify and reward teams who meet our high performance standards.

Our core values and distinctive corporate culture allow us to attract passionate and friendly employees who share a vision of making tea fun and accessible. We have a strong focus on community engagement, and our culture reflects our belief in doing right by our customers and our communities. We provide our employees with extensive training, career development, individual enrichment, and empowerment, which we believe is a key contributor for our success. In addition, the strength of our management team is supported by our dedicated board of directors that works closely with our executives in initiatives related to developing corporate

strategy, building our corporate culture and enhancing our sales and operations infrastructure. Our board of directors and management team's experience is balanced between entrepreneurial growth and large-scale operations.

Our Digital Platform

Our digital platform is primarily comprised of our website, www.davidstea.com. We launched our website just prior to opening our first store. Our e-commerce sales represented 10.6% of sales for Fiscal 2016, compared to 9.4% and 7.9% of sales for Fiscal 2015 and Fiscal 2014, respectively.

Our website features our full assortment of premium loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories and food. To drive increased sales through our digital platform, we utilize online-specific marketing and promotions. In addition, we employ banner advertisements, search engine optimization and pay-per-click arrangements to help drive customer traffic to our website.

Through our e-commerce platform, we can target a broader audience of customers who may not live near one of our retail locations. We believe our digital platform and our stores are complementary, as our digital platform provides our store customers an additional channel through which to purchase our teas and tea-related products while also helping drive awareness of and customer traffic to our stores.

Our digital platform also includes our social media platform on Facebook, Instagram, Twitter, Google+, Pinterest, LinkedIn, YouTube, Snapchat and Yelp. We will continue to leverage our growing social media presence to increase our e-commerce site sales and drive additional store visits within existing and new markets.

Our Product Categories

We offer approximately 150 premium loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories and food primarily through our retail stores and e-commerce site. Additionally, we offer on-the-go tea beverages in our retail stores.

Teas

Our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts that consumers can enjoy at home, on-the-go or at work, represented 66% of our sales in Fiscal 2016, 66% in Fiscal 2015 and 68% in Fiscal 2014. Our different flavors of loose-leaf tea span eight different tea categories: white, green, oolong, black, pu'erh, mate, rooibos and herbal tea. Furthermore, approximately 80% of our teas are blended with other ingredients while approximately 20% are straight teas. Our teas and ingredients used in our tea blends are sourced from various regions around the world, including but not limited to, China, South Korea, Japan, Taiwan, Vietnam, India, Nepal, Kenya, Sri Lanka and South Africa. In addition to loose-leaf teas, we sell pre-packaged teas and tea sachets to make the tea experience more convenient for some customers. Our tea-related gifts include special edition holiday gift packages.

Tea Accessories

Our tea accessories, representing 25% of our sales in Fiscal 2016, 24% in Fiscal 2015 and 22% in Fiscal 2014, are created to make the tea preparation process and tea experience more convenient and fun and easy at home or on-the-go for customers. Tea accessories include tea mugs, travel mugs, teacup sets, teapots, tea makers, kettles, infusers, filters, frothers, tins and spoons. Many of our accessories are crafted with unique features to improve tea preparation and consumption. Most of our accessories are crafted with unique colors and designs.

Food and Beverages

Our retail stores offer tea beverages for on-the-go consumption and our retail stores and e-commerce site offer food products, which together represented 9% of our sales in Fiscal 2016 and 10% in Fiscal 2015 and Fiscal 2014. Our beverages range from the standard hot or iced tea to our Tea Lattes.

Product Development and Design

Our tea and merchandising teams travel throughout the world seeking premium teas and tea-related products. These teams consist of Tea Blend Developers, Product Designers, Category Merchants and Quality Control Personnel, who leverage our extensive experience in selecting and developing our product assortment. We are constantly exploring different ingredients, flavors and trends

that are popular in a variety of cultures from which we introduce new teas to our customers. Our research and development team works with our blenders and suppliers to create new and exciting flavors of tea, which we rotate into our product offering to attract new customers and keep current customers coming back. Our blending process is very focused on magnifying the senses and bringing smell and taste to the forefront. We introduce new flavors and blends each month as well as around seasonal holidays. We believe our focus on innovation and product development is a key differentiating factor for our brand that drives our customer's loyalty.

Our innovation also extends to creating new and exciting merchandise to make the tea consumption and experience more convenient and easy at home or on-the-go. We have a competitive advantage in that our merchandising team designs and develops most of our products in-house. Therefore, we are better positioned to create unique and proprietary designs to make consuming loose-leaf tea easier and more fun for our customers. We believe our combination of product selection and product innovation allows us to offer customers a distinctive assortment that differentiates us from other specialty tea retailers.

Marketing and Advertising

We differentiate our business through a unique field-based marketing approach to build brand awareness and drive customers to our stores and e-commerce site in both new and existing markets. We customize our marketing mix for each of our markets and purposes through our events sponsorship group. Our events sponsorship group engages directly in the communities around our stores and drives store visits by offering product samplings and beverage coupons, and by participating in both hyper-local and large-scale events. These events are identified and coordinated by our local store managers and Tea Guides with support from our dedicated corporate events team.

Sourcing and Manufacturing

We do not own or operate any tea estates or blending operations; instead, we work with vendors who source ingredients for our teas and tea blends from all over the world. The majority of our tea blenders are in either Germany or the United States. We have a flexible and scalable supply chain system. Most of our pre-packaged teas are primarily assembled in our Montréal warehouse and then shipped to our retail stores. Since we founded the Company in 2008, we have developed strong relationships with our vendors. These relationships are important as we depend on our vendors to provide us with the highest quality teas and ingredients from around the world. We have a process of quality control, which includes in-house testing and vendor testing. In addition to bringing our designs for tea blends to fruition, our vendors are important to the quality control process and ensuring our teas meet applicable regulatory guidelines.

Warehouse and Distribution Facilities

We distribute our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories and food to our stores and our e-commerce customers from distribution centers in Montréal, Quebec, Sherbrooke, Quebec, Calgary, Alberta and Champlain, New York. In Canada, our third-party Sherbrooke warehouse ships to our Canadian e-commerce customers and our Montreal warehouse ships to Eastern Canada stores, while our third-party distribution centers in Calgary ships to Western Canada. Our Champlain, New York distribution center ships to all our U.S. stores and began shipping directly to our U.S. ecommerce customers during Fiscal 2015. We operate the distribution facility in Montréal, which is leased. Third parties operate the facilities in Calgary and Champlain, New York. Our products are typically shipped to our stores and our e-commerce customers via a third-party national transportation provider multiple times per week.

Management Information Systems

Our management information systems provide a full range of business process supports to our stores, our store operations and service support center teams. Additionally, we operate our e-commerce site on an independent platform. We believe our information systems provide us with enhanced operational efficiencies, scalability, increased management control and timely reporting that allow us to identify and respond to trends in our business. We utilize a combination of industry-standard and customized software systems to provide various functions related to:

- point of sales;
- inventory management;
- warehouse management, and;
- accounting and financial reporting.

Government Regulation

We are subject to labor and employment laws, import and trade restrictions laws, laws governing advertising, privacy and data security laws, safety regulations and other laws, including consumer protection regulations that apply to retailers and/or the promotion and sale of merchandise and the operation of stores and warehouse facilities. In the United States, we are subject to the regulatory authority of, among other agencies, the Federal Trade Commission (“FTC”) and U.S. Food and Drug Administration (“FDA”). We are also subject to the laws of Canada, including the Canadian Food Inspection Agency, as well as provincial and local regulations. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We maintain third-party insurance for a number of risk management activities including but not limited to a worker’s compensation, general liability, property, directors and officers, cyber insurance and employee-related health care benefits. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Trademarks and Other Intellectual Property

We regard intellectual property and other proprietary rights as important to our success. We own several trademarks and servicemarks that have been registered with the Canadian Intellectual Property Office and the U.S. Patent and Trademark Office, including DAVIDsTEA®. We have also registered our stylized logos. We also own domain names, including davidstea.com. In addition, we have registered or made application to register one or more of our marks in a number of foreign countries and expect to continue to do so in the future. There can be no assurance that we can obtain the registration for the marks in every country where registration has been sought.

We also rely upon trade secrets and know-how to develop and maintain our competitive position. We protect our intellectual property rights through a variety of methods including trademark and trade secret laws, as well as confidentiality agreements with vendors, employees, consultants and others who have access to our proprietary information.

We must constantly protect against any infringement by competitors. If a competitor infringes on our trademark rights, we may take action to protect our rights, which could result in litigation, in which case, we may incur significant expenses and divert significant attention from our business operations.

Employees

As of the end of Fiscal 2016, we had 3,059 employees. As of January 28, 2017, we employed a total of 477 full-time employees and 2,582 part-time employees, with 470 in the United States and 2,589 in Canada. Of all those employees, 2,822 were employed in our retail channel and 237 were employed in corporate, distribution and direct channel support functions. None of our employees is represented by a labor union. We believe we have a good relationship with our employees.

Seasonality

Our business experiences seasonal fluctuations, reflecting increased sales during the year-end holiday season. Our sales and income are generally highest in the fourth quarter, which includes the year-end holiday sales period, and tends to be lowest in the second and third fiscal quarters. Therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the year-end holiday season, we must order and keep in inventory more merchandise than we carry during other parts of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, to reach their highest levels in the third and fourth quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variations in consumer spending habits, we experience fluctuations in net sales, net income and working capital requirements during the year.

Corporate Information

DAVIDsTEA Inc. was incorporated under the *Canada Business Corporations Act*, or the CBCA, on April 29, 2008 and our principal executive offices are located at 5430 Ferrier Street, Mount-Royal, Québec, Canada, H4P 1M2. Our office in the United States is located at 400 Fifth Avenue, Suite 350, Waltham, Massachusetts, 02451. Our telephone number at our principal executive offices is (888) 873-0006. Our website address is www.davidstea.com.

DAVIDsTEA Inc. owns a 100% equity interest in its sole subsidiary, DAVIDsTEA (USA) Inc., a corporation organized under the laws of Delaware.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments to these reports are filed with the Securities and Exchange Commission (the “SEC”) and the Autorité des Marchés Financiers (the “AMF”). We are subject to the informational requirements of the Exchange Act and Securities Act, and file or furnish reports, proxy statements and other information with the SEC and/or the AMF, as required by applicable law.

For more information about us, visit our website www.davidstea.com. The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the SEC and the AMF (including all annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available, free of charge, through our website as soon as reasonably practicable after we electronically file them with the SEC and the AMF.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below together with all of the other information contained in this Annual Report on Form 10-K and in our other public disclosures. If any of the following risks actually occurs, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common shares could decline and you could lose all or part of your investment. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known to us or that are currently deemed immaterial that may adversely affect our business and financial condition.

Risks Related to Our Business and Our Industry

We may not be able to successfully implement our growth strategy on a timely basis or at all, which could harm our results of operations.

Our continued growth depends, in large part, on our ability to open new stores and to operate those stores successfully. We believe there is a significant opportunity to expand our store base in Canada and in the United States from 181 locations in Canada and 50 locations in the United States as of January 28, 2017 to potentially add up to a total of 230 stores in Canada and up to a total of 325 stores in the United States, based on management estimates. In fiscal 2017, we expect to open approximately 10-15 stores in Canada and approximately 5 stores in the United States. Our U.S. growth depends, in part, on increasing consumer awareness and consumption of tea in the United States, as well as successfully expanding our operating experience in Canada to the United States.

Our ability to successfully open and operate new stores depends on many factors, including:

- our ability to increase brand awareness in the United States and to increase tea consumption in areas where we open stores;
- the identification and availability of suitable sites for store locations, the availability of which is beyond our control;
- the negotiation of acceptable lease terms;
- the maintenance of adequate distribution capacity, information systems and other operational system capabilities;
- integrating new stores into our existing buying, distribution and other support operations;
- the hiring, training and retention of store management and other qualified personnel;
- assimilating new store employees into our corporate culture;
- increased competitive activity;
- the effective sourcing and management of inventory to meet the needs of our stores on a timely basis; and

- the availability of sufficient levels of cash flow and financing to support our expansion.

Unavailability of attractive store locations, delays in the acquisition or opening of new stores, delays or costs resulting from a decrease in commercial development due to capital constraints, difficulties in staffing and operating new store locations or lack of customer acceptance of stores in new market areas may negatively impact our new store growth and the costs or the profitability associated with new stores.

Additionally, some of our new stores may be located in areas where we have little experience or a lack of brand recognition, particularly in the United States. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause these new stores to be less successful than stores in our existing markets. Other new stores may be located in areas where we have existing stores. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Accordingly, we may not achieve our planned growth and, even if we are able to grow our store base as planned, new stores may not perform as planned. If we fail to successfully implement our growth strategy, we will not be able to sustain the rapid growth in sales and profits that we expect, which would likely have an adverse impact on the price of our common shares.

Our business largely depends on a strong brand image, and if we are unable to maintain and enhance our brand image, particularly in new markets where we have limited brand recognition, we may be unable to increase or maintain our level of sales.

We believe that our brand image and brand awareness have contributed significantly to the success of our business. We also believe that maintaining and enhancing our brand image, particularly in newer markets, such as the United States, where we have limited brand recognition, is important to maintaining and expanding our customer base. Our ability to successfully integrate new stores into their surrounding communities, to expand into new markets or to maintain the strength and distinctiveness of our brand in our existing markets will be adversely impacted if we fail to connect with our target customers. Maintaining and enhancing our brand image may require us to make substantial investments in areas such as merchandising, marketing, store operations, community relations, store graphics and employee training, which could adversely affect our cash flow and which may ultimately be unsuccessful. Furthermore, our brand image could be jeopardized if we fail to maintain high standards for merchandise quality, if we fail to comply with local laws and regulations or if we experience negative publicity or other negative events that affect our image and reputation. Some of these risks may be beyond our ability to control, such as the effects of negative publicity regarding our suppliers. Failure to successfully market and maintain our brand image in new and existing markets could harm our business, results of operations and financial condition.

The retail industry in the United States and Canada has changed rapidly. If we are unable to adapt our business to these changes successfully, our results of operations may suffer.

In recent years, the retail industry has experienced consolidation and other ownership changes. In the future, retailers in the United States and foreign markets may further consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could decrease the number of stores that carry our products or increase the ownership concentration within the retail industry. Also, online retail shopping is rapidly evolving, and we expect competition in the e-commerce market will intensify. As a greater portion of consumer expenditures with retailers occurs online and through mobile commerce applications, our brick-and-mortar retail customers who fail to successfully integrate their physical retail stores and digital retail may experience financial difficulties, including store closures, bankruptcies or liquidations. This could, in turn, substantially increase our credit risk and have a material adverse effect on our results of operations, financial condition and cash flows. Our future success will be determined, in part, on our ability to identify and capitalize on retail trends, including technology, e-commerce and other process efficiencies that will better service our customers. If we fail to compete successfully, our businesses, market share, results of operations and financial condition will be materially and adversely affected. While such changes in the retail industry to date have not had a material adverse effect on our business or financial condition, results of operations and liquidity, there can be no assurance as to the future effect of any such changes.

Our limited operating experience and limited brand recognition in the United States may limit our expansion strategy and cause our business and growth to suffer.

Our future growth depends, to a considerable extent, on our expansion efforts outside of Canada into the United States. Our current operations are based largely in Canada. We have a limited number of customers and limited experience in operating outside of

Canada. We also have limited experience with legal environments and market practices outside of Canada and we may not be able to penetrate or successfully operate in any market outside of Canada. In addition, in connection with our initial expansion efforts in the United States, we have experienced longer projected payback periods for our new stores. We may also encounter difficulty expanding in U.S. markets because of limited brand recognition. In particular, our marketing efforts may not prove successful outside of the narrow geographic regions in which they have been used. In addition, because tea consumption is greater in Canada than in the United States on a per capita basis, we may encounter challenges in the United States in establishing consumer awareness and loyalty or interest in our products and our brand to a different degree than in Canada. The expansion into the United States may also present competitive, merchandising, forecasting and distribution challenges that are different from or more severe than those we currently face. Failure to develop new markets outside of Canada or disappointing growth outside of Canada may harm our business and results of operations.

We face significant competition from other specialty tea and beverage retailers and retailers of grocery products, which could adversely affect our growth plans and us.

The U.S. and Canadian tea markets are highly fragmented. We compete directly with a large number of relatively small independently owned tea retailers and a number of regional and national tea retailers, as well as retailers of grocery products, including loose-leaf teas, tea sachets and other beverages. We compete with these retailers on the basis of our distinct retail experience, the broad demographic appeal of our brand and innovative tea products, the effectiveness of our grassroots marketing strategy, our versatile store economics and our passionate customer-focused culture supported by our experienced management team and dedicated board members. We must spend considerable resources to differentiate our customer experience. Some of our competitors may have greater financial, marketing and operating resources than we do. Therefore, despite our efforts, our competitors may be more successful than us in attracting customers. In addition, as we continue to drive growth in the specialty tea retailer category in the United States and Canada, our success, combined with relatively low barriers to entry, may encourage new competitors to enter the market. As we continue to expand geographically, we expect to encounter additional regional and local competitors.

We plan to use cash on hand and cash from operations to finance our growth strategy, and if we are unable to maintain sufficient levels of cash flow, we may not meet our growth expectations.

We intend to finance our growth through our cash on hand, the cash flows generated by our existing stores and borrowings under our available credit facilities. Our primary sources of financing for our growth are cash on hand and cash from operations. However, if our stores are not profitable or if our store profits decline, we may not have the cash flow necessary in order to pursue or maintain our growth strategy. We may also be unable to obtain any necessary financing on commercially reasonable terms to pursue or maintain our growth strategy. If we are unable to pursue or maintain our growth strategy, the market price of our common shares could decline and our results of operations and profitability could suffer.

The planned addition of new stores each year will require us to continue to expand and improve our operations and could strain our operational, managerial and administrative resources, which may adversely affect our business.

Our growth strategy calls for the opening of new stores each year and our continued expansion will place increased demands on our operational, managerial, administrative and other resources, which may be inadequate to support our expansion. Our senior management team may be unable to effectively address challenges involved with expansion forecasts for the future. Managing our growth effectively will require us to continue to enhance our store management systems, financial and management controls and information systems, and to hire, train and retain regional directors, district managers, store managers and other personnel. Implementing new systems, controls and procedures, these additions to our infrastructure and any changes to our existing operational, managerial, administrative and other resources could negatively affect our results of operations and financial condition.

As we expand our store base, we may not experience the same increases in comparable sales or profitability that we have experienced in the past.

We may not be able to maintain the levels of comparable sales that we have experienced historically. If our future comparable sales decline or fail to meet market expectations, the price of our common shares could decline. In addition, the aggregate results of operations of our stores have fluctuated in the past and can be expected to continue to fluctuate in the future. A variety of factors affect comparable sales including consumer tastes, competition, current economic conditions, pricing, inflation and weather conditions. These factors may cause our comparable sales results to be materially lower than recent periods and our expectations, which could harm our results of operations and result in a decline in the price of our common shares.

We may be unable to maintain or improve our Adjusted EBITDA margin, which could adversely affect our financial condition and ability to grow.

Although we believe we can expand our Adjusted EBITDA margin to the high teens over the long term, reaching that target depends on our ability to successfully manage our operating costs and capture certain efficiencies of scale that we expect to achieve from our expansion. If we are not able to continue our cost discipline, improve our systems, maintain appropriate labor levels and capture certain efficiencies of scale, or if increased competition imposes pricing pressures or our input prices increase, such as the price of tea, materials used in our pre-packaged teas, tea sachets and tea-related gifts, accessories and food and labor, our Adjusted EBITDA margin may not expand as anticipated and could even stagnate or decline, which could have a material adverse effect on our business, financial condition and results of operations.

Any decrease in customer traffic in the shopping malls or other locations in which our stores are located could cause our sales to be less than expected.

Our stores are located in shopping malls, including lifestyle centers and outlets, and on street locations. Sales at these stores are derived, to a significant degree, from the volume of customer traffic in those locations and in the surrounding area. Our stores benefit from the current popularity of shopping malls and centers as shopping destinations and their ability to generate customer traffic near our stores. Our sales volume and customer traffic may be adversely affected by, among other things:

- economic downturns in the United States, Canada or regionally;
- increases in fuel prices;
- changes in consumer demographics;
- a decrease in popularity of shopping malls or centers in which a significant number of our stores are located;
- the closing of a shopping mall's or center's "anchor" store or the stores of other key tenants, or;
- deterioration in the financial condition of shopping mall and center operators or developers that could, for example, limit their ability to maintain and improve their facilities.

A reduction in customer traffic as a result of these or any other factors could have a material adverse effect on our business and results of operations.

In addition, severe weather conditions and other catastrophic occurrences in areas in which we have stores may have a material adverse effect on our results of operations. Such conditions may result in physical damage to our stores, loss of inventory, decreases in customer traffic and closure of one or more of our stores. Any of these factors may disrupt our business and have a material adverse effect on our financial condition and results of operations.

If we are unable to attract, train, assimilate and retain employees that embody our culture, including store personnel, store and district managers and regional directors, we may not be able to grow or successfully operate our business.

Our success depends in part upon our ability to attract, train, assimilate and retain a sufficient number of employees, including Tea Guides, store managers, district managers and regional directors, who understand and appreciate our culture, are able to represent our brand effectively and establish credibility with our customers. If we are unable to hire and retain store personnel capable of consistently providing a high-level of customer service, as demonstrated by their enthusiasm for our culture, understanding of our customers and knowledge of the loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages we offer, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted. In addition, the rate of employee turnover in the retail industry is typically high and finding qualified candidates to fill positions may be difficult. Our planned growth will require us to attract, train and assimilate even more personnel. Any failure to meet our staffing needs or any material increases in team member turnover rates could have a material adverse effect on our business or results of operations. We also rely on temporary or seasonal personnel to staff our stores and distribution centers. We may not be able to find adequate temporary or seasonal personnel to staff our operations when needed, which may strain our existing personnel and negatively affect our operations.

Because our business is highly concentrated on a single, discretionary product category, loose-leaf teas, pre-packaged teas, tea sachets, and tea-related gifts, accessories, food and beverages, we are vulnerable to changes in consumer preferences and in economic conditions affecting disposable income that could harm our financial results.

Our business is not diversified and consists primarily of developing, sourcing, marketing and selling loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages. Consumer preferences often change rapidly and without warning, moving from one trend to another among many retail concepts. Therefore, our business is substantially dependent on our ability to educate consumers on the many positive attributes of tea and anticipate shifts in consumer tastes. Any future shifts in consumer preferences away from the consumption of beverages brewed from premium loose-leaf teas would also have a material adverse effect on our results of operations. In particular, there has been an increasing focus on health and wellness by consumers, which we believe has increased demand for products, such as our teas, that are perceived to be healthier than other beverage alternatives. If such consumer preference trends change, or if our teas are not perceived to be healthier than other beverage alternatives, our financial results could be adversely affected.

Consumer purchases of specialty retail products, including our products, are historically affected by economic conditions such as changes in employment, salary and wage levels, the availability of consumer credit, inflation, interest rates, tax rates, fuel prices and the level of consumer confidence in prevailing and future economic conditions. These discretionary consumer purchases may decline during recessionary periods or at other times when disposable income is lower. Our financial performance may become susceptible to economic and other conditions in regions or states where we have a significant number of stores. Our continued success will depend, in part, on our ability to anticipate, identify and respond quickly to changing consumer preferences and economic conditions.

We rely on independent certification for a number of our products and our marketing of products marked “organic”, “fair trade” and “Kosher”. Loss of certification within our supply chain or as related to our manufacturing process or failure to comply with government regulations pertaining to the use of the term organic could harm our business.

We rely on independent certification, such as certifications of our products as “organic,” “Fair Trade,” or “Kosher,” to differentiate some of our products from others. We offer one of the largest certified organic collections of tea in North America amongst branded tea retailers. We must comply with the requirements of independent organizations or certification authorities in order to label our products as certified. The loss of any independent certifications could adversely affect our marketplace position, which could harm our business.

In addition, the U.S. Department of Agriculture and the Canadian Food Inspection Agency require that our certified organic products meet certain consistent, uniform standards. Compliance with such regulations could pose a significant burden on some of our suppliers, which could cause a disruption in some of our product offerings. Moreover, in the event of actual or alleged non-compliance, we might be forced to find an alternative supplier, which could adversely affect our business, results of operations and financial condition.

Our success depends, in part, on our ability to source, develop and market new varieties of teas and tea blends, tea-related gifts, accessories, food and beverages that meet our high standards and customer preferences.

We currently offer approximately 150 varieties of teas and tea blends, including 75 new teas and tea blends each year, and a wide assortment of tea-related gifts, accessories and food. Our success depends in part on our ability to continually innovate, develop, source and market new varieties of loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages that both meet our standards for quality and appeal to customers’ preferences. Failure to innovate, develop, source and market new varieties of loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages that consumers want to buy could lead to a decrease in our sales and profitability.

We may experience negative effects to our brand and reputation from real or perceived quality or safety issues with our tea, tea accessories and food and beverages, which could have an adverse effect on our operating results.

We believe our customers rely on us to provide them with high-quality teas, tea accessories and food and beverages. Concerns regarding the safety of our teas, tea accessories and food and beverages or the safety and quality of our supply chain could cause consumers to avoid purchasing certain products from us or to seek alternative sources of tea, even if the basis for the concern has been addressed or is outside of our control. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving teas, tea accessories and food and beverages sold at our stores, could discourage consumers from buying our teas, tea accessories and food and beverages and have an adverse effect on our brand, reputation and operating results.

Furthermore, the sale of teas, tea accessories and food and beverages entails a risk of product liability claims and the resulting negative publicity. For example, tea supplied to us may contain contaminants that, if not detected by us, could result in illness or death upon their consumption. Similarly, tea accessories and food and beverages could contain contaminants or contain design or manufacturing defects that could result in illness, injury or death. It is possible that product liability claims will be asserted against us in the future.

We may also be subject to involuntary product recalls or may voluntarily conduct a product recall. The costs associated with any future product recall could, individually and in the aggregate, be significant in any given fiscal year. In addition, any product recall, regardless of direct costs of the recall, may harm consumer perceptions of our teas, tea accessories and food and beverages and have a negative impact on our future sales and results of operations.

Any loss of confidence on the part of our customers in the safety and quality of our teas, tea accessories and food and beverages would be difficult and costly to overcome. Any such adverse effect could be exacerbated by our position in the market as a purveyor of quality teas, tea accessories and food and beverages and could significantly reduce our brand value. Issues regarding the safety of any teas, tea accessories and food and beverages sold by us, regardless of the cause, could have a substantial and adverse effect on our sales and operating results.

Use of social media may adversely affect our reputation or subject us to fines or other penalties.

There has been a substantial increase in the use of social media platforms and similar devices, including blogs, social media platforms, and other forms of Internet-based communications, which allow individuals access to a broad audience of consumers and other interested persons. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely affect our reputation or subject us to fines or other penalties.

Consumers value readily available information concerning retailers and their goods and services and often act on such information without further investigation and without regard to its accuracy. Information concerning us may be posted on social media platforms and similar devices by unaffiliated third parties, whether seeking to pass themselves off as us or not, at any time, which may be adverse to our reputation or business. The harm may be immediate without affording us an opportunity for redress or correction.

Because we rely on a limited number of third-party suppliers and manufacturers, we may not be able to obtain quality products on a timely basis or in sufficient quantities.

We rely on a limited number of vendors to supply us with straight tea and specially blended teas on a continuous basis. Our financial performance depends in large part on our ability to purchase tea in sufficient quantities at competitive prices from these vendors. In general, we do not have long-term purchase contracts or other contractual assurances of continued supply, pricing or exclusive access to products from these vendors.

Any of our suppliers or manufacturers could discontinue supplying us with teas in sufficient quantities for a variety of reasons. The benefits we currently experience from our supplier and manufacturer relationships could be adversely affected if they:

- raise the prices they charge us;
- discontinue selling products to us;
- sell similar or identical products to our competitors; or
- enter into arrangements with competitors that could impair our ability to sell our suppliers' and manufacturers' products, including by giving our competitors exclusive licensing arrangements or exclusive access to tea blends or limiting our access to such arrangements or blends.

During Fiscal 2016, our five largest vendors represented approximately 69% of our total loose-leaf tea inventory purchases. Any disruption to these relationships could have a material adverse effect on our business.

Events that adversely affect our vendors could impair our ability to obtain inventory in the quantities and at the quality that we desire. Such events include difficulties or problems with our vendors' businesses, finances, labor relations, ability to import raw materials, costs, production, insurance and reputation, as well as natural disasters or other catastrophic occurrences.

More generally, if we experience significant increased demand for our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages, or need to replace an existing vendor, additional supplies or additional manufacturing capacity may not be available when required on terms that are acceptable to us, or at all, and that any new vendor may not allocate sufficient capacity to us in order to meet our requirements, fill our orders in a timely manner or meet our strict quality requirements. In the event we are required to find new sources of supply, we may encounter delays in production, inconsistencies in quality and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products and quality control standards. In particular, the loss of a tea vendor would necessitate that we work with our new vendors to replicate our tea blends, which could result in our inability to sell such tea blends for a period of time or in a change of quality in our tea blends. Any delays, interruption or increased costs in the supply of loose-leaf teas or the manufacture of our pre-packaged teas, tea sachets and tea-related gifts, accessories and food could have an adverse effect on our ability to meet customer demand for our products and result in lower sales and profitability both in the short and long term.

A shortage in the supply, a decrease in the quality or an increase in the price of tea and ingredients used in our tea blends, as a result of weather conditions, earthquakes, crop disease, pests or other natural or manmade causes could impose significant costs and losses on our business.

The supply and price of tea and ingredients used in our tea blends are subject to fluctuation, depending on demand and other factors outside of our control. The supply, quality and price of our teas can be affected by multiple factors in tea-producing countries, including political and economic conditions, civil and labor unrest, adverse weather conditions, including floods, drought and temperature extremes, earthquakes, tsunamis, and other natural disasters and related occurrences. This risk is particularly true with respect to regions or countries from which we source a significant percentage of our products. In extreme cases, entire tea harvests may be lost or may be negatively impacted in some geographic areas. These factors can increase costs and decrease sales, which may have a material adverse effect on our business, results of operations and financial condition.

Tea may be vulnerable to crop disease and pests, which may vary in severity and effect. The costs to control disease and pest damage vary depending on the severity of the damage and the extent of the plantings affected. Moreover, available technologies to control such conditions may not continue to be effective. These conditions can increase costs and decrease sales, which may have a material adverse effect on our business, results of operations and financial condition.

Our success depends substantially upon the continued retention of our senior management.

Our future success is substantially dependent on the leadership skill of certain members of our senior management, including Joel Silver, our President and Chief Executive Officer, and the other members of our executive team. Mr. Silver, Christine Bullen, our Managing Director, U.S., and Luis Borgen, our Chief Financial Officer in particular, play an important role in determining our strategic direction and for executing our growth strategy. The loss of the services of any of these executives could create circumstances where we may not be able to find suitable individuals to replace them on a timely basis, if at all, which could have a material adverse effect on our business and prospects. In addition, investors and analysts could view any such departure negatively, which could cause the price of our common shares to decline.

We rely significantly on information technology systems and any failure, inadequacy, interruption or security failure of those systems could harm our ability to operate our business effectively.

We rely on our information technology systems to effectively manage our business data, communications, point-of-sale, supply chain, order entry and fulfillment, inventory and warehouse and distribution centers and other business processes. The failure of our systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales, causing our business to suffer. Despite any precautions we may take, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, power outages, viruses, security breaches, cyber-attacks and terrorism, including breaches of our transaction processing or other systems that could result in the compromise of confidential company, customer or employee data. We maintain disaster recovery procedures, but there is no guarantee that these will be adequate in all circumstances. Any such damage or interruption could have a material adverse effect on our business, cause us to face significant fines, customer notice obligations or costly litigation, harm our reputation with our customers, require us to expend significant time and expense developing, maintaining or upgrading our information technology systems or prevent us from paying our vendors or employees, receiving payments from our customers or performing other information

technology, administrative or outsourcing services on a timely basis. Furthermore, our ability to conduct our website operations may be affected by changes in foreign, state, provincial and federal privacy laws and we could incur significant costs in complying with the multitude of foreign, state, provincial and federal laws regarding the unauthorized disclosure of personal information. Although we carry business interruption insurance, our coverage may not be sufficient to compensate us for potentially significant losses in connection with the risks described above.

In addition, we sell merchandise over the Internet through our website. Our website operations may be affected by our reliance on third-party hardware and software providers, whose products and services are not within our control, making it more difficult for us to correct any defects; technology changes; risks related to the failure of computer systems through which we conduct our website operations; telecommunications failures; security breaches or attempts thereof; and, similar disruptions. Third-party hardware and software providers may not continue to make their products available to us on acceptable terms or at all and such providers may not maintain policies and practices regarding data privacy and security in compliance with all applicable laws. Any impairment in our relationships with such providers could have an adverse effect on our business.

Our marketing programs, digital initiatives and use of consumer information are governed by an evolving set of laws and enforcement trends and unfavorable changes in those laws or trends, or our failure to comply with existing or future laws, could substantially harm our business and results of operations.

We collect, maintain and use data, including personally identifiable information, provided to us through online activities and other customer interactions in our business. Our current and future marketing programs depend on our ability to collect, maintain and use this information, and our ability to do so is subject to evolving international and U.S. and Canadian federal, state and/or provincial laws and enforcement trends with respect to the foregoing. We strive to comply with all applicable laws and other legal obligations relating to privacy, data protection and consumer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, may conflict with other rules or may conflict with our practices. If so, we may suffer damage to our reputation and be subject to proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts to defend our practices, distract our management, increase our costs of doing business and result in monetary liability.

In addition, as data privacy and marketing laws change, we may incur additional costs to ensure we remain in compliance. If applicable data privacy and marketing laws become more restrictive at the international, federal, state or provincial levels, our compliance costs may increase, our ability to effectively engage customers via personalized marketing may decrease, our investment in our e-commerce platform may not be fully realized, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase.

Data security breaches and attempts thereof could negatively affect our reputation, credibility and business.

We collect and store personal information relating to our customers and employees, including their personally identifiable information, and rely on third parties for the operation of our e-commerce site and for the various social media tools and websites we use as part of our marketing strategy. Consumers are increasingly concerned over the security of personal information transmitted over the Internet (or through other mechanisms), consumer identity theft and user privacy. Any perceived, attempted or actual unauthorized disclosure of personally identifiable information regarding our employees, customers or website visitors could harm our reputation and credibility, reduce our e-commerce sales, impair our ability to attract website visitors, reduce our ability to attract and retain customers and could result in litigation against us or the imposition of significant fines or penalties. We cannot assure you that any of our third-party service providers with access to such personally identifiable information will maintain policies and practices regarding data privacy and security in compliance with all applicable laws, or that they will not experience data security breaches or attempts thereof which could have a corresponding adverse effect on our business.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal, provincial and state laws and legislative proposals addressing data privacy and security, as well as increased data protection obligations imposed on merchants by credit card issuers. As a result, we may become subject to more extensive requirements to protect the customer information that we process in connection with the purchase of our products, resulting in increased compliance costs.

Fluctuations in our results of operations for the fourth fiscal quarter would have a disproportionate effect on our overall financial condition and results of operations.

Our business is seasonal and, historically, we have realized a higher portion of our sales, net income and cash flow from operations in the fourth fiscal quarter, due to the impact of the holiday selling season. Any factors that harm our fourth fiscal quarter operating results, including disruptions in our supply chain, adverse weather or unfavorable economic conditions, could have a disproportionate effect on our results of operations for the entire fiscal year.

In order to prepare for our peak shopping season, we must order and maintain higher quantities of inventory than we would carry at other times of the year. As a result, our working capital requirements also fluctuate during the year, increasing in the second and third fiscal quarters in anticipation of the fourth fiscal quarter. Any unanticipated decline in demand for our loose-leaf teas, pre-packaged teas, tea sachets, tea-related gifts, accessories and food during our peak shopping season could require us to sell excess inventory at a substantial markdown, which could diminish our brand and reduce our sales and gross profit.

Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings and the sales contributed by new stores. As a result, historical period-to-period comparisons of our sales and operating results are not necessarily indicative of future period-to-period results. You should not rely on the results of a single fiscal quarter, particularly the fourth fiscal quarter holiday season, as an indication of our annual results or our future performance.

Third-party failure to deliver merchandise from our distribution centers to our stores and e-commerce customers could result in lost sales or reduced demand for our teas, tea accessories and food and beverages.

We currently rely upon third-party transportation providers for all of our product shipments from our distribution centers to our stores and e-commerce customers. Our utilization of third-party delivery services for shipments is subject to risks, including increases in fuel prices, which would increase our shipping costs, and employee strikes and inclement weather, which may affect third parties' abilities to provide delivery services that adequately meet our shipping needs. If we change shipping companies, we could face logistical difficulties that could adversely affect deliveries, and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those we receive from the third-party transportation providers in Canada and the United States that we currently use, which in turn would increase our costs and thereby adversely affect our operating results.

Our ability to source our loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories and food profitably or at all could be hurt if new trade restrictions are imposed or existing trade restrictions become more burdensome.

All of our teas are currently grown, and a substantial majority of our pre-packaged teas, tea sachets and tea-related gifts, accessories and food is currently manufactured outside of the United States and Canada. The United States, Canada, and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions that make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of teas, tea accessories and food available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations.

In addition, there is a risk that our suppliers and manufacturers could fail to comply with applicable regulations, which could lead to investigations by the United States, Canadian or foreign government agencies responsible for international trade compliance. Resulting penalties or enforcement actions could delay future imports or exports or otherwise negatively affect our business.

Fluctuations in foreign currency exchange rates may affect our price negotiations with our third-party suppliers and manufacturers.

Substantially all of our suppliers and manufacturers are located outside of Canada and changes in the exchange rates between the Canadian dollar and the U.S. dollar and Euro may have a significant, and potentially adverse, effect on our price negotiations with such parties. If the Canadian dollar weakens against any such currencies, our suppliers and manufacturers may attempt to renegotiate the terms of their arrangements with us, which may have a negative effect on our operating results.

Fluctuations in foreign currency exchange rates could harm our results of operations as well as the price of common shares and any dividends that we may pay.

Sales in the United States accounted for approximately 9%, 14% 16% of our total sales for Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. The reporting currency for our combined consolidated financial statements is the Canadian dollar. In the future, we expect to derive an increasing portion of our sales and incur a significant portion of our operating costs in the United States, and changes in exchange rates between the Canadian dollar and the U.S. dollar may have a significant, and potentially adverse, effect on our results of operations. Because we recognize sales in the United States in U.S. dollars, if the U.S. dollar weakens against the Canadian dollar, it would have a negative impact on our U.S. operating results upon translation of those results into Canadian dollars for the purposes of consolidation. Any hypothetical reduction in sales could be partially or completely offset by lower cost of sales and lower selling, general and administration expenses that are generated in U.S. dollars.

In addition, a majority of the purchases we make from our suppliers are denominated in U.S. dollars. As a result, a depreciation of the Canadian dollar against the U.S. dollar increases the cost of acquiring those supplies in Canadian dollars, which negatively affects our gross profit margin. During the year, we have entered into forward contracts to fix the exchange rate of our expected U.S. dollar purchases in respect to our inventory. However, these may be inadequate in offsetting any gains and losses in foreign currency transactions, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

Our earnings per share are reported in Canadian dollars, and accordingly may be translated into U.S. dollars by analysts or our investors. Given the foregoing, the value of an investment in our common shares to a U.S. shareholder will fluctuate as the U.S. dollar rises and falls against the Canadian dollar. Our decision to declare a dividend depends on results of operations reported in Canadian dollars, and we will declare dividends, if any, in Canadian dollars. As a result, U.S. and other shareholders seeking U.S. dollar total returns, including increases in the share price and dividends paid, are subject to foreign exchange risk as the U.S. dollar rises and falls against the Canadian dollar.

A widespread health epidemic could adversely affect our business.

Our business could be severely affected by a widespread regional, national or global health epidemic. A widespread health epidemic may cause customers to avoid public gathering places such as our stores or otherwise change their shopping behaviors. Additionally, a widespread health epidemic could adversely affect our business by disrupting production of products to our stores and by affecting our ability to appropriately staff our stores.

Changes in accounting standards may materially affect reporting of our financial condition and results from operations.

Accounting principles as per the International Financial Reporting Standards (“IFRS”) and related accounting pronouncements, implementation guidelines, and interpretations for many aspects of our business, such as accounting for inventories, intangible assets, store closures, sales, leases, insurance, income taxes, stock-based compensation, are complex and involved subjective judgements. Changes in these rules or their interpretation may significantly change or add significant volatility to our reported income or loss without a comparable underlying change in cash flows from operations. As a result, changes in accounting standards may materially affect our reported financial condition and results from operations.

Specifically, changes to financial accounting standards will require operating leases to be recognized on our balance sheet. We have significant obligations relating to our current operating leases, as all our existing stores are subject to leases, which have an average remaining terms of 6.1 years, and as of January 28, 2017, we had undiscounted operating lease commitments of approximately \$148.4 million, scheduled through 2029, related primarily to our stores, including stores that are not yet open. These commitments represent the minimum lease payments due under our operating leases, excluding common area maintenance, insurance and taxes related to our operating lease obligations, and do not reflect fair market value rent reset provisions in the leases. These leases are classified as operating leases and disclosed in Note 13 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K, but are not reflected in liabilities on our consolidated balance sheets. During Fiscal 2016, our rent expense charged under operating leases was approximately \$29.1 million.

The International Accounting Standards Board (“IASB”) released IFRS 16, “Leases” (“IFRS 16”) replacing IAS 17, “Leases”. This standard requires lessees to recognize assets and liabilities for most leases. 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.

We are subject to potential challenges relating to overtime pay and other regulations that affect our employees, which could cause our business, financial condition, results of operations or cash flows to suffer.

Various labor laws, including U.S. federal, U.S. state and Canadian federal and provincial laws, among others, govern our relationship with our employees and affect our operating costs. These laws include minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates and citizenship requirements. These laws change frequently and may be difficult to interpret and apply. In particular, as a retailer, we may be subject to challenges regarding the application of overtime and related pay regulations to our employees. A determination that we do not comply with these laws could harm our brand image, business, financial condition and results of operation. Additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence or mandated health benefits could also cause our business, financial condition, results of operations or cash flows to suffer.

Litigation may adversely affect our business, financial condition, results of operations or liquidity.

Our business is subject to the risk of litigation by employees, consumers, vendors, competitors, intellectual property rights holders, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is inherently difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. Regardless of the outcome or merit, the cost to defend future litigation may be significant and result in the diversion of management and other company resources. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, results of operations or liquidity.

Our failure to comply with existing or new regulations, both in the United States and Canada, or an adverse action regarding product claims or advertising could have a material adverse effect on our results of operations and financial condition.

Our business operations, including labeling, advertising, sourcing, distribution and sale of our products, are subject to regulation by various federal, state and local government entities and agencies, particularly the Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC") and the Office of Foreign Asset Control ("OFAC") in the United States, as well as Canadian entities and agencies, including the Canadian Food Inspection Agency. From time to time, we may be subject to challenges to our marketing, advertising or product claims in litigation or governmental, administrative or other regulatory proceedings. Failure to comply with applicable regulations or withstand such challenges could result in changes in our supply chain, product labeling, packaging or advertising, loss of market acceptance of the product by consumers, additional recordkeeping requirements, injunctions, product withdrawals, recalls, product seizures, fines, monetary settlements or criminal prosecution. Any of these actions could have a material adverse effect on our results of operations and financial condition.

In addition, consumers who allege that they were deceived by any statements that were made in advertising or labeling could bring a lawsuit against us under consumer protection laws. If we were subject to any such claims, while we would defend ourselves against such claims, we may ultimately be unsuccessful in our defense. Defending ourselves against such claims, regardless of their merit and ultimate outcome, would likely result in a significant distraction for management, be lengthy and costly and could adversely affect our results of operations and financial condition. In addition, the negative publicity surrounding any such claims could harm our reputation and brand image.

We may not be able to protect our intellectual property adequately, which could harm the value of our brand and adversely affect our business.

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. We pursue the registration of our domain names, trademarks, service marks and patentable technology in Canada, the United States and in certain other jurisdictions. In particular, our trademarks, including our registered DAVIDsTEA and DAVIDsTEA logo design trademarks and the unregistered names of a significant number of the varieties of specially blended teas that we sell, are valuable assets that reinforce the distinctiveness of our brand and our customers' favorable perception of our stores.

We also strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions with our employees, contractors (including those who develop, source, manufacture, store and distribute our tea blends, tea accessories and other tea-related merchandise), vendors and other third parties. However, we may not enter into confidentiality and/or invention assignment agreements with every employee, contractor and service provider to protect our proprietary information and intellectual property ownership rights. Those agreements that we do execute may be breached, resulting in the unauthorized use or disclosure of our proprietary information. Individuals not subject to invention assignments agreements may make adverse ownership claims to our current and future intellectual property, and even the existence of executed confidentiality agreements may not deter independent development of similar intellectual property by others. In addition, although we have exclusivity agreements with each of our significant suppliers who performs blending services for us, or who has access to our designs, we may not be able to successfully protect the tea blends and designs to which such suppliers have access under trade secret laws, and the periods for exclusivity governing our tea blends last for periods as brief as 18 months. Unauthorized disclosure of or claims to our intellectual property or confidential information may adversely affect our business.

From time to time, third parties have used our trade dress and/or sold our products using our name without our consent, and, we believe, have infringed or misappropriated our intellectual property rights. We respond to these actions on a case-by-case basis and where appropriate may commence litigation to protect our intellectual property rights. However, we may not be able to detect unauthorized use of our intellectual property or to take appropriate steps to enforce, defend and assert our intellectual property in all instances.

Effective trade secret, patent, copyright, trademark and domain name protection is expensive to obtain, develop and maintain, in terms of both initial and ongoing registration or prosecution requirements and expenses and the costs of defending our rights. Our trademark rights and related registrations may be challenged in the future and could be opposed, canceled or narrowed. Our failure to register or protect our trademarks could prevent us in the future from using our trademarks or challenging third parties who use names and logos similar to our trademarks, which may in turn cause customer confusion, impede our marketing efforts, negatively affect customers' perception of our brand, stores and products, and adversely affect our sales and profitability. Moreover, intellectual property proceedings and infringement claims brought by or against us could result in substantial costs and a significant distraction for management and have a negative impact on our business. We cannot assure you that we are not infringing or violating, and have not infringed or violated, any third-party intellectual property rights, or that we will not be accused of doing so in the future.

In addition, although we have also taken steps to protect our intellectual property rights internationally, the laws of certain foreign countries may not protect intellectual property to the same extent as do the laws of the United States and Canada and mechanisms for enforcement of intellectual property rights may be inadequate in those countries. Other entities may have rights to trademarks that contain portions of our marks or may have registered similar or competing marks in foreign countries. There may also be other prior registrations in other foreign countries of which we are not aware. We may need to expend additional resources to defend our trademarks in these countries, and the inability to defend such trademarks could impair our brand or adversely affect the growth of our business internationally.

We are subject to the risks associated with leasing substantial amounts of space and are required to make substantial lease payments under our operating leases. Any failure to make these lease payments when due would likely harm our business, profitability and results of operations.

We do not own any real estate. Instead, we lease all of our store locations, our corporate offices in Montréal, Canada and Waltham, Massachusetts and our distribution center in Montréal, Canada. Our store leases typically have ten-year terms and generally require us to pay total rent per square foot that is reflective of our small average store square footage and premium locations. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. As our stores mature and as we

expand our store base, our lease expense and our cash outlays for rent under our lease agreements will increase. Our substantial operating lease obligations could have significant negative consequences, including:

- requiring that an increased portion of our cash from operations and available cash on hand be applied to pay our lease obligations, thus reducing liquidity available for other purposes;
- increasing our vulnerability to adverse general economic and industry conditions;
- limiting our flexibility to plan for or react to changes in our business or in the industry in which we compete; and
- limiting our ability to obtain additional financing.

We depend on cash flow from operations to pay our lease expenses, finance our growth capital requirements and fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities to fund these requirements, we may not be able to achieve our growth plans, fund our other liquidity and capital needs or ultimately service our lease expenses, which would harm our business.

If an existing or future store is not profitable, and we decide to close it, we may nonetheless remain committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. In addition, as our leases expire, we may fail to negotiate renewals on commercially acceptable terms or at all, which could cause us to close stores in desirable locations. Even if we are able to renew existing leases, the terms of such renewal may not be as attractive as the expiring lease, which could materially and adversely affect our results of operations. Of our current stores, no store lease expires without an option to renew in Fiscal 2017 and two (2) store leases expire without an option to renew in Fiscal 2018. Our inability to enter into new leases, renew existing leases on terms acceptable to us, or be released from our obligations under leases for stores that we close could materially adversely affect us.

Our ability to use our net operating loss carryforwards in the United States may be subject to limitation in the event we experience an “ownership change.”

As of January 28, 2017, we had U.S. federal net operating loss carryforwards of US\$14.9 million. Our U.S. federal net operating loss carryforwards begin to expire during the years 2033 and 2037.

Under Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize net operating loss carryforwards in any taxable year may be limited if we experience an “ownership change.” A Section 382 “ownership change” generally occurs if one or more shareholders or groups of shareholders who own at least 5% of our common shares increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Our initial public offering, together with other transactions that have occurred since our inception and that may occur in the future, could trigger such an “ownership change” pursuant to Section 382. Accordingly, the application of Section 382 could have a material effect on the use of our net operating loss carryforwards, which could adversely affect our future cash flow from operations.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results from operations and financial condition.

We are subject to taxes by the U.S. federal and state tax authorities as well as Canadian federal, provincial and local tax authorities, and our tax liabilities will be affected by the allocation of expenses to differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowance;
- tax effects of stock-based compensation;
- changes in tax laws, regulations or interpretations thereof; or
- future earnings being lower than anticipated in jurisdictions where we have lower statutory tax rates and higher than anticipated earnings in jurisdictions where we have higher statutory tax rates.

In addition, we may be subject to audits of our income, sales and other transaction taxes by these tax authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

Risks Relating to Ownership of Our Common Shares

We have a majority shareholder, which may limit our minority shareholder's ability to influence corporate matters.

Rainy Day Investments Ltd., or Rainy Day, owns a majority of our common shares. Accordingly, Rainy Day has the ability to influence the outcome of any corporate transaction or other matter submitted to shareholders for approval and the interests of Rainy Day may differ from the interests of our other shareholders. Because we are incorporated in Canada, certain matters, such as amendments to our articles of incorporation or votes regarding a potential merger or a sale of all or substantially all of our assets, require approval of at least two thirds of our shareholders; Rainy Day's approval will be required to achieve any such threshold. In addition, because we are a "controlled company," we are not required to have a majority of our Board of Directors be independent, and we are not required to have our director nominees approved by a committee of independent directors. As a result, Mr. Herschel Segal, one of our directors who is also the 100% owner of Rainy Day, may exert influence over the nomination or appointment of directors. In addition, Rainy Day, as our controlling shareholder, has the power to elect a majority of our directors and, consequently, has a substantial say in the appointment of our executive officers, our management policies and strategic direction. Accordingly, should the interests of Rainy Day differ from those of other shareholders, the other shareholders may not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance-rules for non-controlled issuers.

Taking advantage of the reduced disclosure requirements applicable to "emerging growth companies" may make our common shares less attractive to investors.

We are an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the JOBS Act, and we take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding a non-binding shareholder advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. As a result, our shareholders may not have access to certain information that they may deem important.

We currently utilize and intend to continue to utilize the exemptions described above for so long as we are an emerging growth company. We could be an emerging growth company for up to five years after our initial public offering, although circumstances could cause us to lose that status earlier, including if our total annual gross revenues exceed US\$1.0 billion, if we issue more than US\$1.0 billion in non-convertible debt securities during any three-year period, or if we are a large accelerated filer and the market value of our common shares held by non-affiliates exceeds US\$700 million as of the end of any second quarter before that time.

Investors may find our common shares less attractive because we elect to rely on these exemptions and taking advantage of these exemptions could result in less active trading or more volatility in the price of our common shares.

As a foreign private issuer, we are not subject to certain U.S. securities law disclosure requirements that apply to a domestic U.S. issuer, which may limit the information publicly available to our shareholders.

As a foreign private issuer, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act and therefore there may be less publicly available information about us than if we were a U.S. domestic issuer. For example, we are not subject to the proxy rules in the United States and disclosure with respect to our annual meetings will be governed by Canadian requirements. In addition, our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder. Therefore, our shareholders may not know on a timely basis when our officers, directors and principal shareholders purchase or sell our shares. Furthermore, as a foreign private issuer, we may take advantage of certain provisions in the NASDAQ listing rules that allow us to follow Canadian law for certain governance matters.

If we are unable to implement and maintain effective internal control over financial reporting in the future, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common shares may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, beginning with our second Annual Report on Form 10-K, we are required to furnish

a report by management on the effectiveness of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is not required to express an opinion as to the effectiveness of our internal control over financial reporting until after we are no longer an “emerging growth company,” as defined in the JOBS Act. At such time, however, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating.

The process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation is time-consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or if our management is unable to report that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting once we are no longer an “emerging growth company,” investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common shares could be negatively affected. We could also become subject to investigations by the NASDAQ Global Market on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

Our stock price may be volatile or may decline regardless of our operating performance.

Shares of our common shares were sold in our IPO on June 5, 2015 at a price to the public of US\$19.00 per share, and our common shares has subsequently traded as high as US\$29.97 and as low as US\$6.30 during the period from our IPO to January 28, 2017.

An active, liquid and orderly market for our common shares may not be sustained, which could depress the trading price of our common shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration. In addition, broad market and industry factors, most of which we cannot control, may harm the price of our common shares, regardless of our actual operating performance. In addition, securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market and political conditions and Canadian dollar exchange rate relative to the U.S. dollar, could subject the market price of our shares to wide price fluctuations regardless of our operating performance. Our operating results and the trading price of our shares may fluctuate in response to various factors, including:

- conditions or trends affecting our industry or the economy globally; in particular, in the retail sales environment;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the retail industry;
- fluctuations of the Canadian dollar exchange rate relative to the U.S. dollar;
- variations in our operating performance and the performance of our competitors;
- seasonal fluctuations;
- our entry into new markets;
- timing of new store openings and our levels of comparable sales;
- actual or anticipated fluctuations in our quarterly financial and operating results or other operating metrics, such as comparable store sales, that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our shares;
- issuance of new or changed securities analysts’ reports or recommendations;
- actions and announcements by us or our competitors, including new product offerings, significant acquisitions, strategic partnerships or divestitures;

- sales, or anticipated sales, of large blocks of our shares, including sales by our directors, officers or significant shareholders;
- additions or departures of key personnel;
- significant developments relating to our relationships with business partners, vendors and distributors;
- regulatory developments negatively affecting our industry;
- changes in accounting standards, policies, guidance, interpretation or principles;
- volatility in our share price, which may lead to higher share-based compensation expense under applicable accounting standards;
- speculation about our business in the press or investment community;
- investors' perception of the retail industry in general and our Company in particular; and
- other events beyond our control such as major catastrophic events, weather and war.

These and other factors, many of which are beyond our control, may cause our operating results and the market price and demand for our shares to fluctuate substantially. Fluctuations in our quarterly operating results could limit or prevent investors from readily selling their shares and may otherwise negatively affect the market price and liquidity of our shares. In addition, in the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

Our articles, bylaws and certain Canadian legislation contain provisions that may have the effect of delaying or preventing a change in control.

Certain provisions of our articles of amendment and bylaws, together or separately, could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that certain investors may be willing to pay for our common shares.

For instance, our bylaws contain provisions that establish certain advance notice procedures for nomination of candidates for election as directors at shareholders' meetings.

The *Investment Canada Act* requires that a "non-Canadian," as defined therein, file an application for review with the Minister responsible for the *Investment Canada Act* and obtain approval of the Minister prior to acquiring control of a Canadian business, where prescribed financial thresholds are exceeded. Otherwise, there are no limitations either under the laws of Canada or in our articles on the rights of non-Canadians to hold or vote our common shares.

Any of these provisions may discourage a potential acquirer from proposing or completing a transaction that may have otherwise presented a premium to our shareholders.

Because we are a federally incorporated Canadian corporation and the majority of our directors and officers are resident in Canada, it may be difficult for investors in the United States to enforce civil liabilities against us based solely upon the federal securities laws of the United States.

We are a federally incorporated Canadian corporation with our principal place of business in Canada. A majority of our directors and officers and the auditors named herein are residents of Canada and all or a substantial portion of our assets and those of such persons are located outside the United States. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon us or our directors or officers or such auditors who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the Securities Act. Investors should not assume that Canadian courts: (1) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or "blue sky" laws of any state within the United States or (2) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or any such state securities or blue sky laws.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.

As discussed above, we are a foreign private issuer, and therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act. The determination of foreign private issuer status is made annually on the last business day of an issuer's most recently completed second fiscal quarter, and, accordingly, the next determination will be made with respect to us on July 29, 2017. We would lose our foreign private issuer status if, for example, more than 50% of our common shares is directly or indirectly held by residents of the United States on July 29, 2017 and we fail to meet additional requirements necessary to maintain our foreign private issuer status. If we lose our foreign private issuer status on this date, we will be required to file with the SEC periodic reports and registration statements on U.S. domestic issuer forms beginning at the end of Fiscal 2017, which are more detailed and extensive than the forms available to a foreign private issuer. We will also have to mandatorily comply with U.S. federal proxy requirements, and our officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. In addition, we will lose our ability to rely upon exemptions from certain corporate governance requirements under the listing rules of The NASDAQ Global Market. As a U.S. listed public company that is not a foreign private issuer, we will incur significant additional legal, accounting and other expenses that we will not incur as a foreign private issuer, and accounting, reporting and other expenses in order to maintain a listing on a U.S. securities exchange. These expenses will relate to, among other things, the obligation to reconcile our financial information that is reported according to IFRS to U.S. GAAP in the future.

There could be adverse tax consequence for our shareholders in the United States if we are a passive foreign investment company.

Under United States federal income tax laws, if a company is, or for any past period was, a passive foreign investment company ("PFIC"), it could have adverse United States federal income tax consequences to U.S. shareholders even if the company is no longer a PFIC. The determination of whether we are a PFIC is a factual determination made annually based on all the facts and circumstances and thus is subject to change, and the principles and methodology used in determining whether a company is a PFIC are subject to interpretation. While we do not believe that we currently are or have been a PFIC, we could be a PFIC in the future. United States purchasers of our common shares are urged to consult their tax advisors concerning United States federal income tax consequences of holding our common shares if we are considered to be a PFIC.

If we are a PFIC, U.S. holders would be subject to adverse U.S. federal income tax consequences, such as ineligibility for any preferred tax rates on capital gains or on actual or deemed dividends, interest charges on certain taxes treated as deferred, and additional reporting requirements under U.S. federal income tax laws or regulations. Whether or not U.S. holders make a timely qualified electing fund, or QEF, election or mark-to-market election may affect the U.S. federal income tax consequences to U.S. holders with respect to the acquisition, ownership and disposition of our common shares and any distributions such U.S. holders may receive. Investors should consult their own tax advisors regarding all aspects of the application of the PFIC rules to our common shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Properties

Our principal executive and administrative offices are located at 5430 Ferrier Street, Mount-Royal, Québec, Canada, H4P 1M2. We also lease office space outside of Boston, Massachusetts. We currently lease one warehouse and distribution center located in Montréal, Québec, which we opened in July 2010. See “Item 1. Business — Warehouse and Distribution Facilities” above for further information.

The general location, use, approximate size and lease renewal date of our properties, none of which is owned by us, are set forth below:

Location	Use	Approximate Square Feet	Lease Renewal Date
Montréal, Québec	Executive and Administrative Offices	22,000	October 31, 2018
Montréal, Québec	Distribution Center	60,000	June 30, 2021
Waltham, Massachusetts	Executive and Administrative Offices	3,000	April 30, 2018

As of January 28, 2017, we operated 231 company-operated stores consisting of approximately 210,000 gross square feet. All of our stores are leased from third parties and the leases typically have 10-year terms. Most leases for our retail stores provide for a minimum rent, typically including rent increases, plus a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses.

The following table summarizes the locations of our stores as of January 28, 2017:

Location	Number of Stores
Alberta, Canada	26
British Columbia, Canada	30
Manitoba, Canada	5
Newfoundland, Canada	2
New Brunswick, Canada	3
Nova Scotia, Canada	5
Ontario, Canada	62
Prince Edward Island, Canada	1
Québec, Canada	44
Saskatchewan, Canada	3
California	10
Connecticut	3
Florida	1
Illinois	9
Indiana	1
Massachusetts	10
Maryland	2
Minnesota	1
New Jersey	2
New York	7
Ohio	1
Pennsylvania	1
Vermont	1
Washington	1

ITEM 3. 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 these matters will have a material adverse effect on our financial position or on our results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The shares of the Company consist of an unlimited number of Common Shares. The rights, privileges, restrictions and conditions attaching to the Common Shares of the Company are as follows:

1. Voting Rights

Each holder of Common Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Company and to vote thereat, except meetings at which only holders of a specified class of shares (other than Common Shares) or specified series of share are entitled to vote. At all meetings of which notice must be given to the holders of the Common Shares, each holder of Common Shares shall be entitled to one vote in respect of each Common Share held by such holder.

2. Dividends

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive any dividend declared by the Company.

3. Liquidation, Dissolution or Winding-up

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive the remaining property of the Company on a liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or on any other return of capital or distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs.

Our common shares have been listed on the NASDAQ Global Market under the symbol "DTEA" since June 2015. The following table sets forth, for the periods indicated, the high and low sale prices of our common shares reported by the NASDAQ Global Market for the periods indicated:

	Common Share Price (US\$) (NASDAQ Stock Market)	
	High	Low
Fiscal Year Ended January 28, 2017		
Fourth Quarter	\$ 11.20	\$ 6.30
Third Quarter	13.95	10.50
Second Quarter	14.30	10.76
First Quarter	12.27	8.88
Fiscal Year Ended January 30, 2016		
Fourth Quarter	\$ 15.54	\$ 9.19
Third Quarter	17.84	11.74
Second Quarter (1)	29.97	15.68

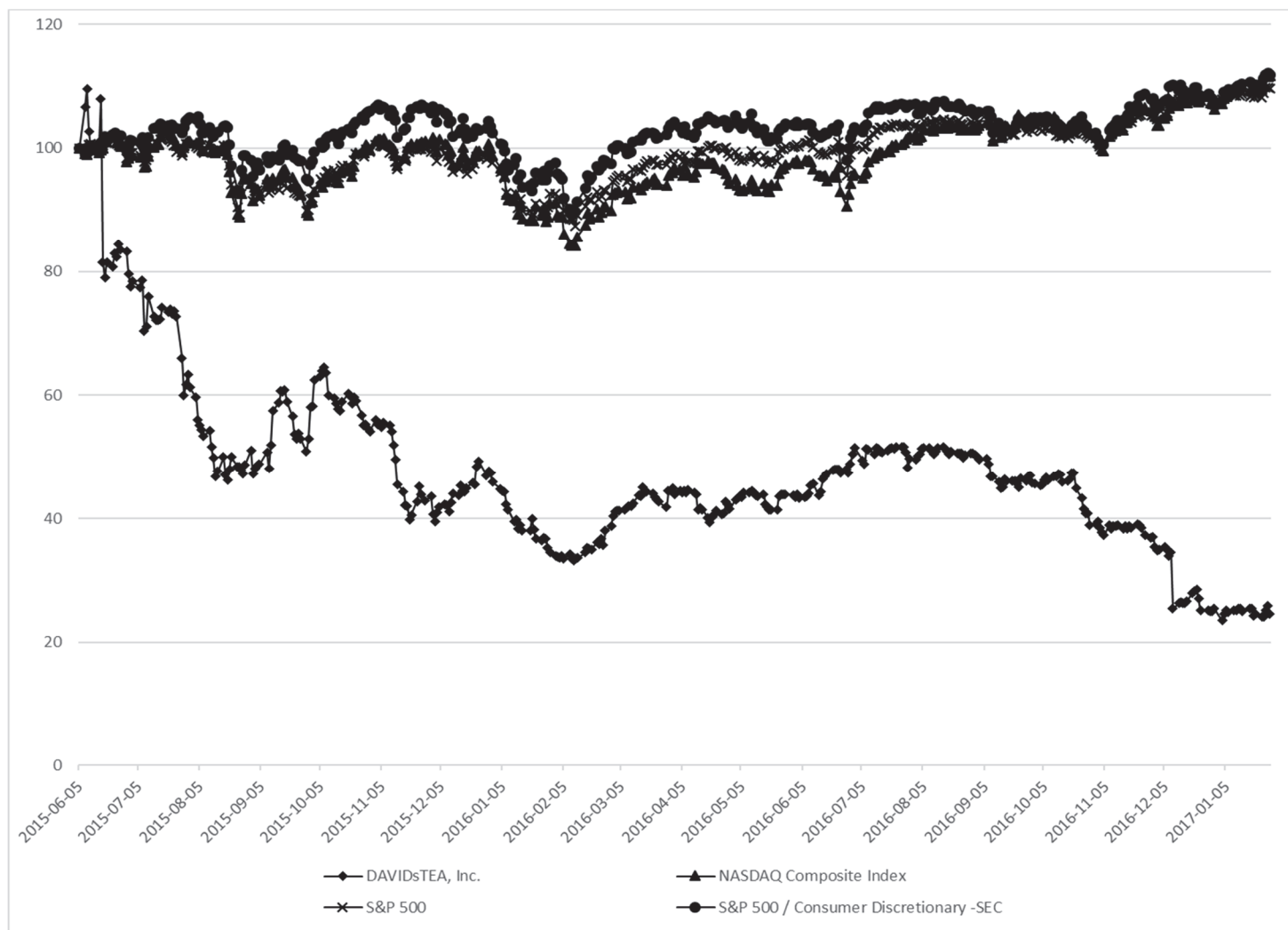
(1) Represents the period from June 5, 2015 through August 1, 2015, the end of our second fiscal quarter.

As of April 12, 2017, there were approximately 11 holders of record of our common shares.

We have never declared or paid regular cash dividends on our common shares. We currently expect to retain all future earnings for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on a number of factors, including our earnings, capital requirements, overall financial condition, and contractual restrictions, including restrictions contained in any agreements governing any indebtedness we may incur.

Stock Performance Graph

The stock performance graph below compares cumulative total return on DAVIDsTEA common shares to the cumulative total return of the NASDAQ Composite Index, S&P 500 Index and S&P 500 Consumer Discretionary Sector Index from June 5, 2015 through January 28, 2017. The graph assumes an initial investment of \$100 in DAVIDsTEA and the NASDAQ Composite Index, S&P 500 Index and S&P 500 Consumer Discretionary Sector Index as of June 5, 2015. The performance shown on the graph below is not intended to forecast or be indicative of possible future performance of our common shares.



ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. The selected consolidated financial data as of January 28, 2017, January 30, 2016 and January 31, 2015 and for the years ended January 28, 2017, January 30, 2016, January 31, 2015, January 25, 2014 and January 26, 2013 presented in this table has been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected for future periods. Our financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These principles differ in certain respects from U.S. GAAP.

This selected consolidated financial data should be read in conjunction with the disclosures set forth under “Risk Related to Our Business and Our Industry” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto.

	For the year ended				
	January 28, 2017	January 30, 2016	January 31, 2015	January 24, 2014	January 26, 2013
(in thousands, except share information)					
Consolidated statements of income (loss) data:					
Sales	\$ 215,984	\$ 180,690	\$ 141,883	\$ 108,169	\$ 73,058
Cost of sales	107,534	85,359	64,185	48,403	32,177
Gross profit	108,450	95,331	77,698	59,766	40,881
Selling, general and administration expenses	114,756	80,116	66,565	52,369	37,338
Results from operating activities	(6,306)	15,215	11,133	7,397	3,543
Finance costs	76	1,051	2,345	1,967	1,829
Finance income	(479)	(348)	(133)	(45)	—
Accretion of preferred shares	—	401	1,044	514	416
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	140,874	380	8,058	3,960
IPO-related costs	—	—	856	—	—
Settlement cost related to former option holder	—	—	520	—	—
Income (loss) before income taxes	(5,903)	(126,763)	6,121	(3,097)	(2,662)
Provision for income tax (recovery)	(2,235)	4,668	(333)	3,067	1,692
Net income (loss)	<u>\$ (3,668)</u>	<u>\$ (131,431)</u>	<u>\$ 6,454</u>	<u>\$ (6,164)</u>	<u>\$ (4,354)</u>
Weighted average number of shares outstanding - basic					
	24,699,290	19,776,946	11,984,763	11,928,626	12,226,202
Net income (loss) per share:					
Basic	(0.15)	(6.65)	0.54	(0.52)	(0.36)
Fully diluted	(0.15)	(6.65)	0.45	(0.52)	(0.36)
Consolidated balance sheet data (at year end):					
Cash	\$ 64,440	\$ 72,514	\$ 19,784		
Total assets	174,334	158,972	79,060		
Long-term debt and finance lease obligations, including current portion	—	—	10,429		
Loan from the controlling shareholder	—	—	2,952		
Preferred shares — Series A, A-1 and A-2	—	—	28,768		
Financial derivative liability embedded in preferred shares — Series A, A-1 and A-2	—	—	16,427		
Total liabilities	40,884	24,935	79,106		
Total equity (deficiency)	133,450	134,037	(46)		

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Preface

In preparing this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), we have taken into account all information available to us up to April 12, 2017, the date of this MD&A. The audited annual consolidated financial statements and this MD&A were reviewed by the Company’s Audit Committee and were approved and authorized for issuance by our Board of Directors on April 12, 2017.

All financial information contained in this annual MD&A and in the audited annual consolidated financial statements has been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, except for certain non-GAAP information discussed in this Annual Report on Form 10-K. As a foreign private issuer, we are permitted to file our audited consolidated financial statements with the SEC under IFRS without a reconciliation to U.S. generally accepted accounting principle (“GAAP”). As a result, we do not prepare a reconciliation of our results to GAAP. It is possible that certain of our accounting policies could be different from GAAP. All monetary amounts in this MD&A are expressed in Canadian dollars, except for share and per share data and where otherwise indicated.

This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto of the Company as at January 28, 2017 and January 30, 2016 and for the years January 28, 2017, January 30, 2016 and January 31, 2015 which are contained in this Annual Report on Form 10-K.

Accounting Periods

All references to “Fiscal 2016” are to the Company’s fiscal year ended January 28, 2017. All references to “Fiscal 2015” are to the Company’s fiscal year ended January 30, 2016 and all references to “Fiscal 2014” are to the Company’s fiscal year ended January 31, 2015.

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

Overview

We are a fast-growing branded retailer of specialty tea, offering a differentiated selection of proprietary loose-leaf teas, pre-packaged teas, tea sachets and tea-related gifts, accessories, food and beverages primarily through 231 company-operated DAVIDsTEA stores as of January 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.

Fiscal 2016 Highlights

During Fiscal 2016, we grew our sales from \$180.7 million to \$216.0 million, representing growth of 19.5% over the prior year. We added 38 net new stores, increasing our store base from 193 to 231 stores, representing growth of 19.7%. Our Adjusted EBITDA decreased from \$24.6 million to \$23.0 million. Our net cash flows relating to operating activities decreased from \$15.6 million to \$11.2 million due to investments in working capital, primarily inventory.

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. A number of factors that influence the level of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence can affect purchases of our products.

Sales also include gift card breakage income.

Comparable Sales. Comparable sales refer to year-over-year 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.

The 53rd week in Fiscal 2015 caused a one-week shift in our fiscal calendar. As a result, comparable sales for the 52 weeks of Fiscal 2016 are calculated using the comparable 52 weeks of Fiscal 2015. We compare the 52-week period ended January 30, 2016, with the 52-week period ended January 31, 2015. As such, changes in comparable store sales are not consistent with changes in net sales reported for the fiscal periods.

Measuring the change in year-over-year 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 near our stores.

Non-Comparable Sales. Non-comparable sales include sales from stores prior to the beginning of their thirteenth fiscal month of operation and alternative sales channel, 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 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 37 of this Annual Report on Form 10-K.

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 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 38 of this Annual Report on Form 10-K.

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

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

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

Adjusted EBITDA. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period to period. Specifically, Adjusted EBITDA allows for an assessment of our operating performance and our ability to service or incur indebtedness without the effect of non-cash charges, such as depreciation, amortization, finance costs, deferred rent, non-cash compensation expense, costs related to onerous contracts or contracts where we expect the costs of the obligations to exceed the economic benefit, gain (loss) on derivative financial instruments, 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. For a reconciliation of net income (loss) to Adjusted EBITDA, refer to page 38 of this Annual Report on Form 10-K.

Selected Operating and Financial Highlights

Results of Operations

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

	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Consolidated statement of income (loss) data:			
Sales	\$ 215,984	\$ 180,690	\$ 141,883
Cost of sales	107,534	85,359	64,185
Gross profit	108,450	95,331	77,698
Selling, general and administration expenses	114,756	80,116	66,565
Results from operating activities	(6,306)	15,215	11,133
Finance costs	76	1,051	2,345
Finance income	(479)	(348)	(133)
Accretion of preferred shares	—	401	1,044
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	140,874	380
IPO-related costs	—	—	856
Settlement cost related to former option holder	—	—	520
Income (loss) before taxes	(5,903)	(126,763)	6,121
Provision for income tax (recovery)	(2,235)	4,668	(333)
Net income (loss)	\$ (3,668)	\$ (131,431)	\$ 6,454
Percentage of sales:			
Sales	100.0%	100.0%	100.0%
Cost of sales	49.8%	47.2%	45.2%
Gross profit	50.2%	52.8%	54.8%
Selling, general and administration expenses	53.1%	44.3%	46.9%
Results from operating activities	(2.9%)	8.5%	7.9%
Finance costs	0.0%	0.6%	1.7%
Finance income	(0.2%)	(0.2%)	(0.1%)
Accretion of preferred shares	0.0%	0.2%	0.7%
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	0.0%	78.0%	0.3%
IPO-related costs	0.0%	0.0%	0.6%
Settlement cost related to former option holder	0.0%	0.0%	0.4%
Income (loss) before taxes	(2.7%)	(70.1%)	4.3%
Income tax recovery	(1.0%)	2.6%	(0.2%)
Net income (loss)	(1.7%)	(72.7%)	4.5%
Other financial and operations data :			
Adjusted EBITDA (1)	\$ 22,957	\$ 24,606	\$ 21,905
Adjusted EBITDA as a percentage of sales	10.6%	13.6%	15.4%
Number of stores at end of year	231	193	154
Comparable sales growth for year (2)	2.2%	6.6%	11.1%

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

(2) Comparable sales refer to year-over-year 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 is not a presentation made in accordance with IFRS, and the use of the term 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, it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under IFRS. Some of these limitations are:

- Adjusted selling, general and administration expenses, Adjusted results from operating activities and Adjusted EBITDA does 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 does not reflect the cash requirements necessary to service interest or principal payments on our debt; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

Because of these limitations, Adjusted 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 a reconciliation 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 year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Selling, general and administration expenses	114,756	80,116	66,565
Executive separation costs (a)	1,267	—	—
Impairment of property and equipment (b)	7,516	—	2,740
Provision for onerous contracts (c)	8,140	—	805
Loss on disposal of property and equipment (d)	311	292	—
Adjusted selling, general and administration expenses	\$ 97,522	\$ 79,824	63,020

-
- (a) Executive separation costs represent salary owed to certain executives of \$835 payable as part of their separation agreements and stock-based compensation expense of \$432 relating to the vesting of equity awards pursuant to the separation agreements.
- (b) Represents costs related to impairment of property and equipment for stores.
- (c) Represents provision 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 construction of a new store concept at an existing store location in the current year period and to the closure of one store due to termination of sub-lease in the prior year period.

Reconciliation of Adjusted results from operating activities

(in thousands)	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Results from operating activities	(6,306)	15,215	11,133
Executive separation costs (a)	1,267	—	—
Impairment of property and equipment (b)	7,516	—	2,740
Provision for onerous contracts (c)	8,140	—	805
Loss on disposal of property and equipment (d)	311	292	—
Adjusted results from operating activities	<u>\$ 10,928</u>	<u>\$ 15,507</u>	<u>\$ 14,678</u>

- (a) Executive separation costs represent salary owed to certain executives of \$835 payable as part of their separation agreements and stock-based compensation expense of \$432 relating to the vesting of equity awards pursuant to the separation agreements.
- (b) Represents costs related to impairment of property and equipment for stores.
- (c) Represents provision 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 construction of a new store concept at an existing store location in the current year period and to the closure of one store due to termination of sub-lease in the prior year period.

Reconciliation of Adjusted EBITDA to our net income (loss)

(in thousands)	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Net income (loss)	\$ (3,668)	\$ (131,431)	\$ 6,454
Finance costs	76	1,051	2,345
Finance income	(479)	(348)	(133)
Depreciation and amortization	8,827	6,445	5,447
Loss on disposal of property and equipment	45	5	31
Provision for income tax (recovery)	(2,235)	4,668	(333)
EBITDA	<u>\$ 2,566</u>	<u>\$ (119,610)</u>	<u>\$ 13,811</u>
Additional adjustments:			
Stock-based compensation expense (a)	2,264	1,749	947
Executive separation costs related to salary (b)	835	—	—
Impairment of property and equipment (c)	7,516	—	2,740
Provision (recovery) for onerous contracts (d)	8,140	(265)	805
Deferred rent (e)	1,325	1,165	802
Loss on disposal of property and equipment (f)	311	292	—
Accretion of preferred shares (g)	—	401	1,044
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares (h)	—	140,874	380
IPO-related costs (i)	—	—	856
Settlement costs related to former option holder (j)	—	—	520
Adjusted EBITDA	<u>\$ 22,957</u>	<u>\$ 24,606</u>	<u>\$ 21,905</u>

- (a) Represents non-cash stock-based compensation expense.
- (b) Executive separation costs related to salary represent salary owed to certain executives as part of their separation agreements.
- (c) Represents costs related to impairment of property and equipment for stores.

- (d) Represents provision and non-cash recovery related to certain stores where the unavoidable costs of meeting the obligations under the lease agreements are expected to exceed the economic benefits expected to be received from the contract.
- (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 construction of a new store concept at an existing location in the current year and to the closure of one store due to termination of sub-lease in the prior year.
- (g) Represents non-cash accretion expense on our preferred shares. In connection with the completion of our IPO on June 10, 2015, all of our outstanding preferred shares were converted automatically into common shares.
- (h) Represents non-cash market loss for the conversion feature of the Series A, A-1 and A-2 preferred shares. In connection with our IPO, this liability was converted into equity.
- (i) Represents fees and expenses incurred in connection with our IPO.
- (j) Represents costs incurred to settle a dispute with a former option holder.

Fiscal Year Ended January 28, 2017 Compared to Fiscal Year Ended January 30, 2016

Sales. Sales for Fiscal 2016 increased 19.5%, or \$35.3 million, to \$216.0 million from \$180.7 million in Fiscal 2015, comprising \$3.9 million in comparable sales and \$31.4 million in non-comparable sales. For Fiscal 2016, comparable sales increased by 2.2% and non-comparable sales increased primarily due to an additional 38 net stores opened as of the end of Fiscal 2016 as compared to the end of Fiscal 2015 and due to non-comparable sales for the 39 net stores opened in Fiscal 2015.

Gross Profit. Gross profit increased by 13.9%, or \$13.2 million, to \$108.5 million in Fiscal 2016 from \$95.3 million in Fiscal 2015. Gross profit as a percentage of sales decreased to 50.2% in Fiscal 2016 from 52.8% in Fiscal 2015, driven by additional promotional activity, a shift in product sales mix and the adverse impact from the stronger U.S. dollar on U.S. dollar denominated purchases.

Selling, General and Administration Expenses. Selling, general and administration expenses increased by 43.3%, or \$34.7 million, to \$114.8 million in Fiscal 2016 from \$80.1 million in Fiscal 2015. As a percentage of sales, selling, general and administration expenses increased to 53.1% in Fiscal 2016 from 44.3% in Fiscal 2015. Excluding executive separation costs, impairment of property and equipment, provision for onerous contracts and loss on disposal of property and equipment in Fiscal 2016, as well as loss on disposal of property and equipment in Fiscal 2015, selling, general and administration expenses increased 22.2% to \$97.5 million in Fiscal 2016 from \$79.8 million in Fiscal 2015, 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 231 stores as of January 28, 2017 as compared to 193 stores as of January 30, 2016, as well a full year of public company costs. As a percentage of sales, selling, general and administration expenses excluding the impacts referenced above increased to 45.1% from 44.2%.

Results from Operating Activities. Results from operating activities decreased by \$21.5 million, to \$(6.3) million in Fiscal 2016 from \$15.2 million in Fiscal 2015. Excluding executive separation costs, impairment of property and equipment, provision for onerous contracts and loss on disposal of property and equipment in Fiscal 2016, as well as the loss on disposal of property and equipment in Fiscal 2015, results from operating activities decreased to \$10.9 million in Fiscal 2016 from \$15.5 million in Fiscal 2015.

Finance Costs. Finance costs decreased by \$1.0 million, or 90.9%, to \$0.1 million in Fiscal 2016 from \$1.1 million in Fiscal 2015, as a result of the repayment of the then-outstanding term loans, loan from the controlling shareholder and amounts borrowed under our Revolving Facility and no accrued dividends due to the conversion of Series A, A-1 and A-2 preferred shares to common shares, during the second quarter of Fiscal 2016.

Finance Income. Finance income increased by \$0.2 million, or 66.7%, to \$0.5 million in Fiscal 2016 from \$0.3 million in Fiscal 2015, as a result of interest income generated on cash on hand.

Provision for Income Tax. Provision (recovery) for income tax decreased by \$6.9 million, to \$(2.2) million in Fiscal 2016 from \$4.7 million in Fiscal 2015. The decrease in the provision for income taxes was due primarily to lower results from operating activities. Our effective tax rates were 37.9% and (3.7%) in Fiscal 2016 and 2015, respectively. The effective tax rate increased as a result of the loss from embedded derivative on Series A, A-1 and A-2 preferred shares not recurring in Fiscal 2016 due to their conversion and cancellation.

Fiscal Year Ended January 30, 2016 Compared to Fiscal Year Ended January 31, 2015

Sales. Sales for Fiscal 2015 increased 27.3%, or \$38.8 million, to \$180.7 million from \$141.9 million in Fiscal 2014, comprising \$9.0 million in comparable sales and \$29.8 million in non comparable sales. For Fiscal 2015, comparable sales increased by 6.6% and non comparable sales increased primarily due to an additional 39 net stores opened as of the end of Fiscal 2015 as compared to the end of Fiscal 2014 and due to non comparable sales for the 30 stores opened in Fiscal 2014.

Gross Profit. Gross profit increased by 22.7%, or \$17.6 million, to \$95.3 million in Fiscal 2015 from \$77.7 million in Fiscal 2014. Gross profit as a percentage of sales decreased to 52.8% in Fiscal 2015 from 54.8% in Fiscal 2014 driven primarily by the adverse impact from the stronger U.S. dollar on U.S. dollar denominated purchases.

Selling, General and Administration Expenses. Selling, general and administration expenses increased by 20.3%, or \$13.5 million, to \$80.1 million in Fiscal 2015 from \$66.6 million in Fiscal 2014 due primarily to the hiring of additional staff to support the growth of the Company, as well as higher store operating expenses to support the operations of 193 stores as of January 30, 2016 as compared to 154 stores as of January 31, 2015. As a percentage of sales, selling, general and administration expenses decreased to 44.3% in Fiscal 2015 from 46.9% in Fiscal 2014. Excluding the impact of impairment of property and equipment, provision for onerous contracts and loss on disposal of property and equipment in Fiscal 2015 and 2014, selling, general and administration expenses increased 26.7% to \$79.8 million in Fiscal 2015 from \$63.0 million in Fiscal 2014. As a percentage of sales, selling, general and administration expenses excluding the impacts referenced above decreased to 44.2% from 44.4%, due primarily to leveraging of fixed expenses.

Results from Operating Activities. Results from operating activities increased by 36.9%, or \$4.1 million, to \$15.2 million in Fiscal 2015 from \$11.1 million in Fiscal 2014. Excluding the impact of impairment of property and equipment, provision for onerous contracts and loss on disposal of property and equipment in Fiscal 2015 and 2014, results from operating activities increased to \$15.5 million from \$14.7 million in Fiscal 2014.

Finance Costs. Finance costs decreased by \$1.2 million, or 52.2%, to \$1.1 million in Fiscal 2015 from \$2.3 million in Fiscal 2014, as a result of the repayment of the then-outstanding term loans, loan from the controlling shareholder and amounts borrowed under our Revolving Facility and no accrued dividends due to the conversion of Series A, A-1 and A-2 preferred shares to common shares, during the second quarter of Fiscal 2015.

Finance Income. Finance income increased by \$0.2 million, or 200.0%, to \$0.3 million in Fiscal 2015 from \$0.1 million in Fiscal 2014, as a result of interest income generated on cash proceeds from our IPO.

Provision for Income Tax. Provision for income tax increased by \$5.0 million, to \$4.7 million in Fiscal 2015 from a recovery of \$0.3 million in Fiscal 2014. The increase in the provision for income taxes was due primarily to a one-time \$3.2 million recognition of previously unrecognized U.S. tax losses in Fiscal 2014. Our effective tax rates were (3.7)% and (5.5)% in Fiscal 2015 and 2014, respectively. The effective tax rate of (3.7)% was primarily the result of the loss from embedded derivative on Series A, A-1 and A-2 preferred shares, which is not tax deductible.

Liquidity and Capital Resources

As of January 28, 2017 we had \$64.4 million of cash primarily held with major Canadian financial institutions. Our working capital was \$78.7 million as of January 28, 2017, compared to \$82.8 million as at January 30, 2016.

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

Capital expenditures typically vary depending on the timing of new stores openings and infrastructure-related investments. During Fiscal 2016, capital expenditures totaled \$22.0 million. We devoted approximately 85% of our capital budget to construct, lease and open 25 new stores in Canada and 14 new stores in the United States, as well as renovate a number of existing stores. The remainder of the capital budget used to make continued investments in our infrastructure.

Our primary working capital requirements are for the purchase of store inventory and payment of payroll, rent and other store operating costs. Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. Historically, we have

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

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

Cash Flow

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

	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Cash flows provided by (used in):			
Operating activities	\$ 11,162	\$ 15,592	\$ 16,966
Investing activities	(22,015)	(18,024)	(13,153)
Financing activities	2,779	55,162	621
Increases (decreases) in cash	\$ (8,074)	\$ 52,730	\$ 4,434

Cash Flows Provided by Operating Activities

	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Cash flows provided by (used in) operating activities:			
Net income (loss)	\$ (3,668)	\$ (131,431)	\$ 6,454
Depreciation of property and equipment	8,069	5,832	4,874
Amortization of intangible assets	758	613	573
Loss on disposal of property and equipment	356	297	31
Impairment of property and equipment	7,516	—	2,740
Deferred rent	1,325	1,165	802
Provision (recovery) for onerous contracts	8,140	(265)	805
Stock-based compensation expense	2,264	1,749	947
Settlement related to cashless exercise of stock options, net of income taxes recovered	—	(2,976)	—
Settlement cost related to former option holder	—	—	345
Amortization of financing fees	75	241	172
Accretion of preferred shares	—	401	1,044
Loss from embedded derivative on Series A, A-1, A-2 preferred shares	—	140,874	380
Deferred income taxes (recovered)	(4,380)	1,364	(3,024)
Net change in other non-cash working capital balances related to operations	(9,293)	(2,272)	823
Cash flows provided by operating activities	\$ 11,162	\$ 15,592	\$ 16,966

Net cash provided by operating activities decreased to \$11.2 million in Fiscal 2016 from \$15.6 million in Fiscal 2015. The decrease in the cash flows provided by operating activities was due to lower results from operating activities and investments in working capital, primarily inventory.

The increase in inventories of \$13.5 million in Fiscal 2016 reflects excess inventories related to sales shortfalls, the increase in the number of stores in our network, higher inventory costs due to higher U.S. dollar, and investment in new merchandising initiatives. The increase in trade and other payables of \$5.2 million is mainly due to the higher inventory levels and other expenses to support higher volume of sales in Fiscal 2016 compared to Fiscal 2015.

Net cash provided by operating activities decreased to \$15.6 million in Fiscal 2015 from \$17.0 million in Fiscal 2014. The decrease in the cash flows provided by operating activities was due primarily to the settlement related to cashless exercise of employee stock options and investment in working capital to support the number of company-operated stores.

The increase in inventories of \$5.3 million in Fiscal 2015 reflects the increase in the number of stores in our network, higher inventory costs due to higher U.S. dollar and the need to support our planned sales growth. The increase in trade and other payables of \$2.0 million is mainly due to the higher inventory levels and other expenses to support higher volume of sales in Fiscal 2015 compared to Fiscal 2014.

Cash Flows Used in Investing Activities

Capital expenditures increased \$4.0 million, to \$22.0 million in Fiscal 2016 from \$18.0 million in Fiscal 2015. This increase was due primarily to renovations of existing stores as well as investment in information systems.

Capital expenditures increased \$4.8 million, to \$18.0 million in Fiscal 2015 from \$13.2 million in Fiscal 2014. This increase was due primarily to the number of new store build outs. We opened 40 new stores in Fiscal 2015 compared to 31 new stores in Fiscal 2014.

Cash Flows Provided by Financing Activities

	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Cash flows provided by (used in) financing activities:			
Repayment of finance lease obligations	\$ —	\$ (552)	\$ (314)
Proceeds from issuance of long-term debt	—	9,996	—
Repayment of long-term debt	—	(20,010)	(3,375)
Repayment of loan from the controlling shareholder	—	(2,952)	—
Proceeds from issuance of common shares pursuant to exercise of stock options	2,779	143	40
Proceeds from issuance of Series A-1 and A-2 preferred shares	—	—	4,404
Gross proceeds of initial public offering	—	79,370	—
Issuance costs paid on initial public offering	—	(10,661)	—
Financing fees	—	(172)	(134)
Cash flows provided by financing activities	\$ 2,779	\$ 55,162	\$ 621

Cash flows from financing activities consist primarily of borrowing and payments on our term facilities and their related financing costs and proceeds from share issuances.

Net cash provided by financing activities decreased by \$52.4 million to \$2.8 million in Fiscal 2016 from \$55.2 million in Fiscal 2015 due to our initial public offering that occurred on June 10, 2015.

Net cash provided by financing activities increased by \$54.6 million to \$55.2 million in Fiscal 2015 from \$0.6 million in Fiscal 2014 primarily due to gross proceeds from our IPO of \$79.4 million, less fees of \$10.7 million.

Credit Facility with Bank of Montreal

The Company has a credit arrangement (hereinafter referred to as “Credit Agreement”) with the Bank of Montreal (“BMO”) that provides for a three-year revolving term facility, maturing October 31, 2019, in the principal amount of \$20.0 million (which we refer 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 three-year term and with the permission of BMO, request an increase to the Revolving Facility by an amount not greater than \$10.0 million.

On June 11, 2015, immediately following our IPO, we fully repaid the advances under the Revolving Facility using proceeds from the offering and cash on hand. As at January 28, 2017, we did not have any borrowings on the Revolving Facility.

The Credit Agreement subjects us to certain financial covenants. Without the prior written consent of BMO, our fixed charge coverage ratio may not be less than 1.25:1.00 and our leverage ratio may not exceed 3.00:1.00. In addition, our net tangible worth may not be less than \$30.0 million.

Borrowings under the Revolving Facility are available in the form of Canadian dollar advances, U.S. dollar advances, prime rate loans, banker's acceptances, U.S. base rate loans and LIBOR loans. Further, up to an aggregate maximum amount of \$2.0 million, or the equivalent amount in other currencies authorized by BMO, is available by way of letters of credit or letters of guarantees for terms of not more than 364 days. The Revolving Facility bears interest based on our adjusted leverage ratio. In the event our adjusted leverage ratio is equal to or less than 3.00:1.00, the Revolving Facility bears interest at (a) the bank's prime rate plus 0.50% per annum, (b) the bank's U.S. base rate plus 0.50% per annum, (c) LIBOR plus 1.50% per annum, subject to availability, or (d) 1.50% on the face amount of each banker's acceptance, letter of credit or letter of guarantee, as applicable. A standby fee of 0.30% will be paid on the daily principal amount of the unused portion of the Revolving Facility. Should our adjusted leverage ratio be greater than 3.00:1.00 but less than 4.00:1.00, the Revolving Facility bears interest at (a) the bank's prime rate plus 0.75% per annum, (b) the bank's U.S. base rate plus 0.75% per annum, (c) LIBOR plus 1.75% per annum, subject to availability, or (d) 1.75% on the face amount of each banker's acceptance, letter of credit or letter of guarantee, as applicable. A standby fee of 0.35% will be paid on the daily principal amount of the unused portion of the Revolving Facility. If our adjusted leverage ratio is greater than 4.00:1.00, the Revolving Facility bears interest at (a) bank's prime rate plus 1.25% per annum, (b) the bank's U.S. base rate plus 1.25% per annum, (c) LIBOR plus 2.25% per annum, subject to availability, or (d) 2.25% on the face amount of each banker's acceptance, letter of credit or letter of guarantee, as applicable. A standby fee of 0.45% will be paid on the daily principal amount of the unused portion of the Revolving Facility.

The Credit Agreement is collateralized by a first lien security interest in all of our assets in the amount of \$37.5 million, a general security agreement, registered in each Canadian province in which we do business, creating a first priority charge on all assets.

The Credit Agreement contains a number of 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 January 28, 2017, we are in compliance with these covenants.

Term Loan with Rainy Day Investments Ltd.

On June 11, 2015, immediately following our IPO, we fully repaid the term loan with Rainy Day Investments Ltd. (referred to as "Loan from the controlling shareholder" in this Annual Report) using proceeds from our IPO and cash on hand. As at January 28, 2017, we did not have any borrowings with Rainy Day Investments Ltd.

Off-Balance Sheet Arrangements

Other than operating lease obligations, we have no off-balance sheet obligations.

Contractual Obligations and Commitments

In the normal course of business, we enter into contractual obligations that will require us to disburse cash over future periods. All commitments have been recorded in our consolidated balance sheets, except for purchase obligations and minimum annual lease payments under operating leases. The following table summarizes our contractual obligations as of January 28, 2017, and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

(dollars in thousands)	Payments due by period				
	Total	less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
Trade and other payables	19,681	19,681	—	—	—
Operating lease obligations ⁽¹⁾	148,436	19,306	39,555	51,336	38,239
Purchase obligations ⁽²⁾	5,842	5,842	—	—	—
Total	173,959	44,829	39,555	51,336	38,239

(1) Operating lease obligations under long-term operating leases is exclusive of certain operating costs for which the Company is responsible. Certain of the operating lease agreements provide for additional rentals based on sales.

(2) Includes amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company.

Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of financial statements requires us to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on our reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial position, changes in financial position or results of operations. Our significant accounting policies are discussed under Note 3 to our consolidated financial statements included elsewhere in this Annual Report.

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Recoverability and impairment of non-financial assets. Leasehold improvements and furniture and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for impairment is conducted by comparing the carrying amount of the cash generating units', or CGUs', assets with their respective recoverable amounts based on value in use. Value in use is determined based on management's best estimate of expected future cash flows, which includes estimates of growth rates, from use over the remaining lease term and discounted using a pre-tax weighted average cost of capital.

Critical judgments in applying accounting policies

We believe the following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the amounts recognized in our consolidated financial statements:

Impairment of non-financial assets. Management is required to make significant judgments in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU. The significant judgments applied by management in determining if stores should be aggregated in a given geographic area to form a CGU include the determination of expected customer behavior and whether customers could interchangeably shop in any of the stores in a given area and whether management views the cash flows of the stores in the group as interdependent.

Income taxes. We may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. We establish provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

To determine the extent to which deferred income tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be used. Such estimates are made as part of the budget and strategic plan by tax jurisdiction. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable considering factors such as the number of years included in the forecast period and prudent tax planning strategies.

Recently Issued Accounting Standards

During the year, we implemented the following new accounting standards on the presentation of financial statements.

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

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

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

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) replaces IAS 11, “Construction Contracts”, and IAS 18, “Revenue”, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. The Company is currently in the process of evaluating the impact this standard is expected to have on the consolidated financial statements. The Company in the process of assessing whether the loyalty program we currently offer could be considered a separate performance obligation. 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.

JOBS Act Exemptions and Foreign Private Issuer Status

We qualify as an “emerging growth company” as defined in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. This includes an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act. We may take advantage of this exemption for up to five years or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company if we (1) have US\$1.0 billion or more in annual revenue as of the end of our fiscal year, (2) are a large accelerated filer and have more than US\$700.0 million in market value of our common shares held by non-affiliates as of the end of our second fiscal quarter or (3) issue more than US\$1.0 billion of non-convertible debt securities over a three-year period. We may choose to take advantage of some but not all of these reduced burdens.

We do not take advantage of the extended transition period provided under Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We report under the Exchange Act as a non-U.S. company with foreign private issuer status. Even after we no longer qualify as an emerging growth company, as long as we qualify as a foreign private issuer under the Exchange Act we will be exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic public companies, including:

- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time;

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events; and
- Regulation FD, which regulates selective disclosures of material information by issuers.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in interest rates on debt and foreign currency on purchases of our teas and tea accessories.

Interest Rate Risk

Our borrowings under our Revolving Facility carry floating interest rates tied to our lender's prime rate, and therefore, our consolidated statements of income (loss) and cash flows will be exposed to changes in interest rates in fiscal periods in which we have debt outstanding. As at January 28, 2017, we have no indebtedness under our Revolving Facility.

Foreign Exchange Risk

A significant portion of our tea and tea accessory purchases are in U.S. dollars as is our revenue from U.S. stores and U.S. e-commerce customers. As a result, our statement of income (loss) and cash flows could be adversely impacted by changes in exchange rates, primarily between the U.S. dollar and the Canadian dollar. During the year, in order to protect ourselves from the risk of losses should the value of the Canadian dollar decline in relation to the U.S. dollar, we entered into forward contracts of \$42.4 million to fix the exchange rate of 80% to 90% of our expected February 2017 to October 2017 U.S. dollar purchases in respect of our inventory.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
DAVIDsTEA Inc.

We have audited the accompanying consolidated balance sheets of DAVIDsTEA Inc. (the “Company”) as of January 28, 2017 and January 30, 2016, and the related consolidated statements of income (loss) and comprehensive income (loss), equity (deficiency) and cash flows for each of the three years in the period ended January 28, 2017. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DAVIDsTEA Inc. as of January 28, 2017 and January 30, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ ERNST & YOUNG LLP¹

Montréal, Canada
April 12, 2017

¹ CPA, Auditor, CA, public accountancy permit no. A112179

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

		As at January 28, 2017 \$	As at January 30, 2016 \$
ASSETS			
Current			
Cash		64,440	72,514
Accounts and other receivables	[Note 6]	3,485	2,702
Inventories	[Note 7]	31,264	17,767
Income tax receivable	[Note 19]	539	605
Prepaid expenses and deposits		5,659	4,493
Derivative financial instruments	[Note 24]	454	3,442
Total current assets		105,841	101,523
Property and equipment	[Note 8]	51,160	47,330
Intangible assets	[Note 9]	2,958	2,242
Deferred income tax assets	[Note 19]	14,375	7,877
Total assets		174,334	158,972
LIABILITIES AND EQUITY			
Current			
Trade and other payables	[Note 10]	19,681	14,435
Deferred revenue	[Note 11]	4,885	3,762
Income taxes payable	[Note 19]	—	62
Current portion of provisions	[Note 12]	2,562	512
Total current liabilities		27,128	18,771
Deferred rent and lease inducements		7,824	6,002
Provisions	[Note 12]	5,932	162
Total liabilities		40,884	24,935
Commitments and contingencies	[Note 13]		
Equity			
Share capital	[Note 17]	263,828	259,205
Contributed surplus		8,833	7,094
Deficit		(142,398)	(138,465)
Accumulated other comprehensive income		3,187	6,203
Total equity		133,450	134,037
		174,334	158,972

See accompanying notes

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

[In thousands of Canadian dollars, except share information]

		For the year ended		
		January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Sales	[Note 23]	215,984	180,690	141,883
Cost of sales		107,534	85,359	64,185
Gross profit		108,450	95,331	77,698
Selling, general and administration expenses	[Note 20]	114,756	80,116	66,565
Results from operating activities		(6,306)	15,215	11,133
Finance costs	[Note 18]	76	1,051	2,345
Finance income		(479)	(348)	(133)
Accretion of preferred shares	[Note 16]	—	401	1,044
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	[Note 16]	—	140,874	380
IPO-related costs		—	—	856
Settlement cost related to former option holder		—	—	520
Income (loss) before income taxes		(5,903)	(126,763)	6,121
Provision for income tax (recovery)	[Note 19]	(2,235)	4,668	(333)
Net income (loss)		(3,668)	(131,431)	6,454
Other comprehensive income (loss)				
Items to be reclassified subsequently to income:				
Unrealized net gain (loss) on forward exchange contracts	[Note 24]	(2,247)	5,253	—
Realized net gain on forward exchange contracts reclassified to inventory		(742)	(1,811)	—
Provision for income tax recovery (income tax) on comprehensive income		793	(913)	—
Cumulative translation adjustment		(820)	1,388	1,475
Other comprehensive income (loss), net of tax		(3,016)	3,917	1,475
Total comprehensive income (loss)		(6,684)	(127,514)	7,929
Net income (loss) per share:				
Basic	[Note 21]	(0.15)	(6.65)	0.54
Fully diluted	[Note 21]	(0.15)	(6.65)	0.45
Weighted average number of shares outstanding				
— basic	[Note 21]	24,699,290	19,776,946	11,984,763
— fully diluted	[Note 21]	24,699,290	19,776,946	19,966,846

See accompanying notes

DAVIDsTEA Inc.
Incorporated under the laws of Canada
CONSOLIDATED STATEMENTS OF CASH FLOWS
[In thousands of Canadian dollars]

	For the year ended		
	January 28, 2017	January 30, 2016	January 31, 2015
	\$	\$	\$
OPERATING ACTIVITIES			
Net income (loss)	(3,668)	(131,431)	6,454
Items not affecting cash:			
Depreciation of property and equipment	8,069	5,832	4,874
Amortization of intangible assets	758	613	573
Loss on disposal of property and equipment	356	297	31
Impairment of property and equipment	7,516	—	2,740
Deferred rent	1,325	1,165	802
Provision (recovery) for onerous contracts	8,140	(265)	805
Stock-based compensation expense	2,264	1,749	947
Settlement related to cashless exercise of stock options, net of income taxes recovered	—	(2,976)	—
Settlement cost related to former option holder	—	—	345
Amortization of financing fees	75	241	172
Accretion of preferred shares	—	401	1,044
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	140,874	380
Deferred income taxes (recovered)	(4,380)	1,364	(3,024)
	20,455	17,864	16,143
Net change in other non-cash working capital balances related to operations	(9,293)	(2,272)	823
Cash flows related to operating activities	11,162	15,592	16,966
FINANCING ACTIVITIES			
Repayment of finance lease obligations	—	(552)	(314)
Proceeds from issuance of long-term debt	—	9,996	—
Repayment of long-term debt	—	(20,010)	(3,375)
Repayment of loan from the controlling shareholder	—	(2,952)	—
Proceeds from issuance of common shares pursuant to exercise of stock options	2,779	143	40
Proceeds from issuance of Series A-1 and A-2 preferred shares	—	—	4,404
Gross proceeds of initial public offering ("IPO")	—	79,370	—
IPO-related expenses	—	(10,661)	—
Financing fees	—	(172)	(134)
Cash flows related to financing activities	2,779	55,162	621
INVESTING ACTIVITIES			
Additions to property and equipment	(20,531)	(16,852)	(12,432)
Additions to intangible assets	(1,484)	(1,172)	(721)
Cash flows related to investing activities	(22,015)	(18,024)	(13,153)
Increase (decrease) in cash during the year	(8,074)	52,730	4,434
Cash, beginning of year	72,514	19,784	15,350
Cash, end of year	64,440	72,514	19,784
Supplemental Information			
Cash paid for:			
Interest	1	372	1,012
Income taxes (classified as operating activity)	2,437	2,675	4,232
Cash received for:			
Interest	486	378	133
Income taxes (classified as operating activity)	532	662	—

See accompanying notes

DAVIDsTEA Inc.

Incorporated under the laws of Canada

CONSOLIDATED STATEMENTS OF EQUITY (DEFICIENCY)

[In thousands of Canadian dollars]

				Accumulated Other Comprehensive Income			
	Share Capital	Contributed Surplus	Deficit	Accumulated Derivative Financial Instrument Adjustment	Accumulated Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income	Total Equity (Deficiency)
	\$	\$	\$	\$	\$	\$	\$
Balance, January 31, 2015	385	1,412	(4,129)	—	2,286	2,286	(46)
Net loss for the year ended January 30, 2016	—	—	(131,431)	—	—	—	(131,431)
Other comprehensive income	—	—	—	2,529	1,388	3,917	3,917
Total comprehensive loss	—	—	(131,431)	2,529	1,388	3,917	(127,514)
Issuance of common shares	312	(169)	—	—	—	—	143
Gross proceeds on initial public offering	79,370	—	—	—	—	—	79,370
Issue costs on initial public offering (net of future tax benefit)	(7,738)	—	—	—	—	—	(7,738)
Issuance of common shares on conversion of junior preferred and Series A, A-1 and A-2 preferred shares	186,947	—	—	—	—	—	186,947
Stock-based compensation	—	1,749	—	—	—	—	1,749
Income tax impact associated with stock options	—	4,102	—	—	—	—	4,102
Settlement related to cashless exercise of stock options (net of income taxes recovered of \$1,076)	(71)	—	(2,905)	—	—	—	(2,976)
Balance, January 30, 2016	259,205	7,094	(138,465)	2,529	3,674	6,203	134,037
Balance, January 30, 2016	259,205	7,094	(138,465)	2,529	3,674	6,203	134,037
Net loss for the year ended January 28, 2017	—	—	(3,668)	—	—	—	(3,668)
Other comprehensive loss	—	—	—	(2,196)	(820)	(3,016)	(3,016)
Total comprehensive loss	—	—	(3,668)	(2,196)	(820)	(3,016)	(6,684)
Issuance of common shares	4,175	(1,396)	—	—	—	—	2,779
Common shares issued on vesting of restricted stock units	448	(922)	(265)	—	—	—	(739)
Stock-based compensation expense	—	2,264	—	—	—	—	2,264
Income tax impact associated with stock options	—	1,793	—	—	—	—	1,793
Balance, January 28, 2017	263,828	8,833	(142,398)	333	2,854	3,187	133,450

See accompanying notes

DAVIDsTEA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended January 28, 2017, January 30, 2016 and January 31, 2015

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

1. CORPORATE INFORMATION

The consolidated financial statements of DAVIDsTEA Inc. and its subsidiary (collectively, the “Company”) for the year ended January 28, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on April 12, 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 Street, 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 in the United States. 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 quarters because of lower customer traffic during the summer months.

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies were consistently applied to all periods presented.

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

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

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned U.S. subsidiary, DAVIDsTEA (USA) Inc. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated.

Basis of measurement

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

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

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent Company’s functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash on the consolidated balance sheet comprises cash at banks and on hand.

Inventory valuation

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Costs include the cost of purchase and transportation costs that are directly incurred to bring the inventories to their present location, and duty. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs. Cost also includes realized gains and losses on forward contracts designated as cash flow hedges of U.S. inventory purchases.

Property and equipment and assets under finance leases

Property and equipment are initially recorded at cost and are depreciated over their useful economic life. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly related to bringing the asset to a working condition for its intended use. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. All repair and maintenance costs are recognized in net income (loss) as incurred.

Depreciation of an asset begins once it becomes available for use. Depreciation is charged to income on the following bases:

Furniture and equipment	20 % declining balance
Computer hardware	30 % declining balance

Leasehold improvements are depreciated on a straight-line basis over the lesser of the useful economic life and the initial term of the leases, plus one renewal option period, not to exceed 10 years.

Any gain or loss arising on the disposal or derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income (loss) when the asset is derecognized.

Intangible assets

Intangible assets consist of computer software, trademarks, patents and rights over leased assets.

Intangible assets are initially recorded at cost. Intangible assets with finite lives are amortized over their useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in income (loss) as the expense category that is consistent with the function of the intangible assets.

Any gain or loss arising on the disposal or derecognition of the intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset) is included in net income (loss) when the intangible asset is derecognized.

When computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible. Computer software is amortized on the basis of its estimated useful life using the declining method at the rate of 30%.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. The Company carries on its operations in premises under leases of varying terms and renewal options, which are accounted for as operating leases. Payments under an operating lease are recognized in net income (loss) on a straight-line basis over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Contingent (sales-based) rentals are recognized as an expense when incurred.

Store opening costs

Store opening costs are expensed as incurred.

Impairment

i. Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred “loss event”) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii. Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an item of property and equipment or an intangible asset may be impaired. If any indication exists, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or corporate assets. The discount rate applied to an asset or CGU is the weighted average cost of capital (“WACC”). Management considers factors such as risk-free rate, equity risk premium, size premium, specific business risk premium and cost of debt to derive the WACC.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of ten years or the lease term if shorter.

Based on the management of operations, the Company has defined each of the commercial premises in which it carries out its activities as a CGU, although where appropriate these premises are aggregated at a district or regional level to form a CGU.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased and if there has been a change in the assumptions used to determine the asset’s recoverable amount. The reversal is limited to the extent that an asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Such reversal is recognized in net income (loss).

Derivative financial instruments and hedge accounting

The Company enters into foreign exchange forward contracts to hedge its foreign currency risks, resulting from variability in foreign currency exchange rates on inventory purchases, as described in Note 24.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company has applied hedge accounting for its foreign exchange forward contracts and has designated them as cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized directly in Other Comprehensive Income ("OCI"), while any ineffective portion is recognized immediately in net income (loss). The amounts recognized in OCI are reclassified to inventory when such non-financial asset is recognized on the balance sheet, and to net income (loss) when inventory is subsequently sold.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income (loss) net of any reimbursement. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Deferred lease inducements

The deferred lease inducements are composed of free rent and construction allowances obtained upon signing of lease agreements for certain retail stores. They are amortized on a straight-line basis over the term of the related leases, plus one renewal option, to a maximum of 10 years.

Share capital

i. Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Common shares are classified as equity if they are non-redeemable or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity on approval by the Company's Board of Directors.

ii. Preferred shares

Preferred shares are classified as a financial liability if they are redeemable on a specific date or at the option of the shareholders. Dividends thereon are recognized as interest expense in net income (loss) as accrued.

iii. Hybrid financial instruments

Hybrid financial instruments issued by the Company comprise convertible preferred shares that can be converted to common shares at the option of the holders, when the number of shares to be issued is not fixed.

The equity components on such instruments are separated from the debt host contract (preferred shares redeemable at the option of the holders) and accounted for separately if the economic characteristics and risks of the debt host contract and the embedded derivative (equity components) are not closely related.

iv. Derivative and embedded derivative financial instruments

The Company issued liability-classified derivatives and embedded derivatives over its Series A, A-1 and A-2 preferred shares. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through income (loss).

Derivatives and separable embedded derivatives are recognized initially at fair value and attributable transaction costs are recognized in income (loss) as incurred. Subsequent to initial recognition, derivatives and separable embedded derivatives are measured at fair value and all changes in their fair value are recognized immediately in income (loss).

Stock-based compensation

The Company has a stock option plan for employees and directors from which options to purchase common shares are issued (the “Plan”). Options may not be granted with an exercise price of less than the fair value of the underlying shares at the grant date. The awards have no cash settlement alternatives. The vesting requirements are typically service-based and the options normally have a contractual life of seven years.

The fair value of stock-based compensation awards granted to employees is measured at the grant date using the Black Scholes option pricing model. Measurement inputs include the share price of the underlying shares on the measurement date, the exercise price of the option, the expected volatility (based on weighted average historical volatility of comparable companies adjusted for changes expected based on publicly available information), the weighted average expected life of the option (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

The value of the compensation expense is recognized over the vesting period of the stock options as an expense included in selling and general administration expenses, with a corresponding increase to contributed surplus in equity. The amount recognized as an expense is adjusted to reflect the Company’s best estimate of the number of awards that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

Any consideration paid by plan participants on the exercise of stock options and the previously recognized compensation cost of the options exercised included in contributed surplus are credited to share capital.

Under the Company’s 2015 Omnibus Equity Incentive Plan (the “2015 Omnibus Plan”), selected employees are granted RSUs where each RSU has a value equal to one common share. The compensation expense is recorded at the fair value of the Company’s common shares at the grant date over the vesting period (generally two to three years) with a corresponding credit to contributed surplus for equity-settled RSUs and a corresponding credit to a liability for cash-settled RSUs. RSUs may be settled in shares, cash, or a combination of cash or shares upon vesting at the discretion of the Company. Cash settled RSUs are revalued at each reporting date to reflect their fair value at that date. Fair value is determined using the closing price of the Company’s common shares on the NASDAQ Global Market prior to the date of the grant. The Company has not issued any cash settled awards to date.

Revenue recognition

Revenue from retail sales is recorded upon delivery to the customer. Revenue is recognized on e-commerce sales when merchandise is delivered. Revenues are recorded net of discounts, rebates, estimated returns, sales taxes and amounts deferred related to the issuance of Frequent Steeper points.

i. Gift card breakage

Gift cards sold are recorded as deferred revenue and revenue is recognized at the time of redemption or in accordance with the Company's accounting policy for breakage. Breakage income represents the estimated value of gift cards that is not expected to be redeemed by customers and is estimated based on historical redemption patterns. During the year, the Company determined that it had sufficient historical redemption patterns to record breakage income associated with unredeemed gift cards, and accordingly recorded an amount of \$850 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 consolidated statement of income (loss). For the years ended January 30, 2016 and January 31, 2015, no breakage income was recorded.

ii. Loyalty program

The Frequent Steeper loyalty and rewards program allows customers to earn points when they purchase products in the Company's retail stores and on the Company's website. Points can be redeemed for free tea or free beverages, depending on the number of points a customer has obtained over a limited collection period. Free tea offers are issued at the end of each collection period and must be redeemed within 60 days from the effective date. Free beverage offers are issued at the end of the calendar collection period and must be redeemed within 60 days from the effective date.

The fair value of points issued is recorded as deferred revenue and recognized as revenue only when the points are redeemed for free products or when the related points expire. The fair value of Frequent Steeper points is determined based on the estimated selling price of the product for which the point is expected to be redeemed, net of points we do not expect to be redeemed. On an ongoing basis, the Company monitors historical redemption rates. Points revenue is included with total sales in the consolidated statement of income (loss).

Finance income

Interest income is recognized as interest accrues using the effective interest method.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company uses the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities for all temporary differences caused when the tax bases of assets and liabilities differ from their carrying amounts reported in the consolidated financial statements. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding during the period.

The diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed conversion of preferred shares and the exercise of stock options, if dilutive. For stock options, the number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized stock-based compensation which is considered to be assumed proceeds, are used to purchase common shares at the average market price during the reporting period.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized depending on their classification with changes in subsequent measurements being recognized in income or loss or in other comprehensive income ("OCI").

The Company has made the following classifications:

- Cash is classified as "Fair Value through Profit or Loss", and measured at fair value. Changes in fair value are recorded in income (loss).
- Accounts and other receivables are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Trade and other payables, Series A, A-1 and A-2 preferred shares, loan from the controlling shareholder, long-term debt and finance lease obligations are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Foreign currency translation

Revenues, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Unrealized and realized translation gains and losses are reflected in net income (loss).

The assets and liabilities of the Company's U.S. wholly owned subsidiary, whose functional currency is the U.S. dollar, are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Differences arising from the exchange rate changes are included in OCI in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative translation account and reclassified from equity to net income (loss) on disposal of the net investment.

4. CHANGES IN ACCOUNTING PRINCIPLES

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

Standards issued but not yet effective

IFRS 9, "Financial Instruments" ("IFRS 9"), partially replaces the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This standard is the first step in the project to replace IAS 39. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39. These changes are applicable for annual periods

beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of adopting this standard on the consolidated financial statements and related note disclosures.

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) replaces IAS 11, “Construction Contracts”, and IAS 18, “Revenue”, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. The Company is currently in the process of evaluating the impact this standard is expected to have on the consolidated financial statements. The Company in the process of assessing whether the loyalty program we currently offer could be considered a separate performance obligation. 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses are discussed below. Information about significant estimates is discussed in the following section.

Key sources of estimation uncertainty

Recoverability and impairment of non-financial assets

Leasehold improvements and furniture and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for impairment is conducted by comparing the carrying amount of the CGU’s assets with their respective recoverable amounts based on value in use. Value in use is determined based on management’s best estimate of expected future cash flows, which includes estimates of growth rates, from use over the remaining lease term and discounted using a pre-tax weighted average cost of capital (Note 8).

Critical judgements in applying accounting policies

i. Impairment of non-financial assets

Management is required to make significant judgments in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU. The significant judgments applied by management in determining if stores should be aggregated in a given geographic area to form a CGU include the determination of expected customer behavior, the allocation basis of e-commerce sales to CGUs, and whether customers could interchangeably shop in any of the stores in a given area and whether management views the cash flows of the stores in the group as interdependent.

ii. Income taxes

The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. The Company establishes provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

To determine the extent to which deferred income tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be used. Such estimates are made as part of the budget and strategic plan by tax jurisdiction. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable considering factors such as the number of years included in the forecast period and prudent tax planning strategies. See Note 19—Income Taxes for more details.

6. ACCOUNTS AND OTHER RECEIVABLES

	January 28, 2017 \$	January 30, 2016 \$
Credit card cash clearing receivables	1,537	1,528
Government remittances	—	84
Other receivables	1,948	1,090
	<u>3,485</u>	<u>2,702</u>

7. INVENTORIES

	January 28, 2017 \$	January 30, 2016 \$
Finished goods	24,504	12,903
Goods in transit	5,463	3,790
Packaging	1,297	1,074
	<u>31,264</u>	<u>17,767</u>

During the year ended January 28, 2017, inventories recognized as cost of sales amounted to \$62,995 [January 30, 2016 — \$49,815]. The cost of inventory includes a write-down recorded of \$869 [January 30, 2016 — \$164] as a result of net realizable value being lower than cost. No inventory write-downs recognized in previous years were reversed.

8. PROPERTY AND EQUIPMENT

	Leasehold improvements \$	Furniture and equipment \$	Computer hardware \$	Total \$
Cost				
Balance, January 31, 2015	45,916	6,121	1,801	53,838
Acquisitions	13,507	2,032	1,313	16,852
Disposals	(393)	(27)	—	(420)
Cumulative translation adjustment	1,490	144	42	1,676
Balance, January 30, 2016	60,520	8,270	3,156	71,946
Acquisitions	16,571	3,135	825	20,531
Disposals	(404)	(104)	—	(508)
Cumulative translation adjustment	(1,132)	(116)	(33)	(1,281)
Balance, January 28, 2017	75,555	11,185	3,948	90,688
	Leasehold improvements \$	Furniture and equipment \$	Computer hardware \$	Total \$
Accumulated depreciation and impairment				
Balance, January 31, 2015	14,844	2,379	994	18,217
Depreciation	4,574	902	356	5,832
Disposals	(109)	(14)	—	(123)
Cumulative translation adjustment	609	65	16	690
Balance, January 30, 2016	19,918	3,332	1,366	24,616
Depreciation	6,210	1,211	648	8,069
Impairment	6,764	615	137	7,516
Disposals	(91)	(61)	—	(152)
Cumulative translation adjustment	(459)	(49)	(13)	(521)
Balance, January 28, 2017	32,342	5,048	2,138	39,528
Net Carrying Value				
Balance, January 30, 2016	40,602	4,938	1,790	47,330
Balance, January 28, 2017	43,213	6,137	1,810	51,160

Depreciation expense is reported in the consolidated statement of income (loss) under selling, general and administration expenses (Note 20). For the year ended January 28, 2017, the depreciation expense is \$8,069 [January 30, 2016 — \$5,832; January 31, 2015 — \$4,874].

For the year ended January 28, 2017, an assessment of impairment 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, an impairment loss of \$7,516 [January 30, 2016 — nil; January 31, 2015 — \$2,740] related to store leasehold improvements, furniture and equipment, and computer hardware was recorded in the Canada and U.S. segments for \$1,116 and \$6,400, respectively [January 30, 2016 — nil and nil, respectively; January 31, 2015 — nil and \$2,740, 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, 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 \$472 [January 30, 2016 — nil January 31, 2015 — \$492] 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% [January 30, 2016 — 13.4%; January 31, 2015 — 13.0%].

9. INTANGIBLE ASSETS

	Computer software \$	Other \$	Total \$
Cost			
Balance, January 31, 2015	3,681	257	3,938
Acquisitions	1,172	—	1,172
Cumulative translation adjustment	3	18	21
Balance, January 30, 2016	4,856	275	5,131
Acquisitions	1,468	16	1,484
Cumulative translation adjustment	(3)	(12)	(15)
Balance, January 28, 2017	6,321	279	6,600
Accumulated amortization			
Balance, January 31, 2015	2,231	38	2,269
Amortization	595	18	613
Cumulative translation adjustment	2	5	7
Balance, January 30, 2016	2,828	61	2,889
Amortization	739	19	758
Cumulative translation adjustment	(2)	(3)	(5)
Balance, January 28, 2017	3,565	77	3,642
Net Carrying Value			
Balance, January 30, 2016	2,028	214	2,242
Balance, January 28, 2017	2,756	202	2,958

Amortization expense is reported in the consolidated statement of income (loss) under selling, general and administration expenses.

10. TRADE AND OTHER PAYABLES

	January 28, 2017 \$	January 30, 2016 \$
Trade payable and accrued liabilities	13,990	10,980
Government remittances	1,860	—
Wages, salaries and employee benefits payable	3,831	3,455
	19,681	14,435

11. DEFERRED REVENUE

	January 28, 2017 \$	January 30, 2016 \$
Gift cards liability	3,263	2,812
Loyalty program liability	1,622	950
	4,885	3,762

12. PROVISIONS

	For the year ended January 28, 2017 \$	For the year ended January 30 , 2016 \$
Opening balance	674	874
Arising during the year	8,140	—
Amortized during the year	—	(265)
Settled during the year	(235)	—
Cumulative translation adjustment	(85)	65
Ending balance	8,494	674
Less: Current portion	(2,562)	(512)
Long-term portion of provisions	<u>5,932</u>	<u>162</u>

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

13. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The commercial premises at which the Company carries out its retail operations, its head office and its primary warehouse location are leased from third parties. These rental contracts are classified as operating leases since there is no transfer of risks and rewards inherent to ownership.

These leases have varying terms and renewal rights. In many cases, the amounts payable to the lessor include a fixed rental payment as well as a percentage of sales obtained by the Company in the leased premises. Many leases include escalating rental payments, whereby cash outflows increase over the lease term. Free rental periods are also sometimes included.

The minimum rentals payable under long-term operating leases are exclusive of certain operating costs for which the Company is responsible. For the year ended January 28, 2017, the Company has recognized in income (loss) contingent rent amounting to \$2,312 [January 30, 2016 — \$1,829—\$1,397] and accrued for a contingent rent liability of \$1,001 [January 30, 2016 — \$715].

Included in the cost of sales and selling, general and administration expenses for the year ended January 28, 2017 is rent expense of \$29,173 [January 30, 2016 — \$22,679; January 31, 2015 — \$16,972].

The following is a schedule of future minimum lease payments under operating leases:

	January 28, 2017 \$	January 30, 2016 \$
Within one year	19,306	15,647
After one year but not more than five years	90,891	76,106
More than five years	38,239	35,316
	<u>148,436</u>	<u>127,069</u>

14. 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 the end of the three-year term and with permission from BMO, request an increase to the Revolving Facility by an amount not greater than \$10,000. As at January 28, 2017 and January 30, 2016, the Company did not have any borrowings on the Revolving Facility.

The Credit Agreement subjects the Company to certain financial covenants. Without the prior written consent of BMO, the Company’s fixed charge coverage ratio may not be less than 1.25:1.00 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 \$30,000. Borrowings under the Revolving Facility are available in the form of Canadian dollar advances, U.S. dollar advances, prime rate loans, banker’s acceptances, U.S. base rate loans and LIBOR loans. Further, up to an aggregate maximum amount of \$2,000, or the equivalent amount in other currencies authorized by BMO, is available by way of letters of credit or letters of guarantees for terms of not more than 364 days. The Revolving Facility bears interest based on the Company’s adjusted leverage ratio. In the event the Company’s adjusted leverage ratio is equal to or less than 3.00:1.00, the Revolving Facility bears interest at (a) the bank’s prime rate plus 0.50% per annum, (b) the bank’s U.S. base rate plus 0.50% per annum, (c) LIBOR plus 1.50% per annum, subject to availability, or (d) 1.50% on the face amount of each banker’s acceptance, letter of credit or letter of guarantee, as applicable. A standby fee of 0.30% will be paid on the daily principal amount of the unused portion of the Revolving Facility. Should the Company’s adjusted leverage ratio be greater than 3.00:1.00 but less than 4.00:1.00, the Revolving Facility bears interest at (a) the bank’s prime rate plus 0.75% per annum, (b) the bank’s U.S. base rate plus 0.75% per annum, (c) LIBOR plus 1.75% per annum, subject to availability, or (d) 1.75% on the face amount of each banker’s acceptance, letter of credit or letter of guarantee, as applicable. A standby fee of 0.35% will be paid on the daily principal amount of the unused portion of the Revolving Facility. If the Company’s adjusted leverage ratio is greater than 4.00:1.00, the Revolving Facility bears interest at (a) the bank’s prime rate plus 1.25% per annum, (b) the bank’s U.S. base rate plus 1.25% per annum, (c) LIBOR plus 2.25% per annum, subject to availability, or (d) 2.25% on the face amount of each banker’s acceptance, letter of credit or letter of guarantee, as applicable. A standby fee of 0.45% will be paid on the daily principal amount of the unused portion of the Revolving Facility. As at January 28, 2017, the bank’s prime rate was 2.70% [January 30, 2016 — 2.70%] and the bank’s U.S. base rate was 4.50% [January 30, 2016 — 4.00%].

The Credit Agreement is collateralized by a first lien security interest in all of the Company’s assets in the amount of \$37,500, a general security agreement, registered in each Canadian province in which the Company does business, creating a first priority charge on all assets. The Revolving Facility contains a number of 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 January 28, 2017, the Company is in compliance with these covenants.

15. LOAN FROM THE CONTROLLING SHAREHOLDER

On June 11, 2015, immediately following the Company’s IPO, the advances under the loan from the controlling shareholder were fully repaid using proceeds from the IPO and cash on hand. As at January 28, 2017, the Company did not have any borrowings from the controlling shareholder [January 30, 2016 — nil].

16. MANDATORILY REDEEMABLE PREFERENCE SHARES

Prior to the Company’s IPO on June 10, 2015, the Series A, A-1, and A-2 redeemable preferred shares liability was being accreted to their nominal value and the financial derivative liability embedded in the preferred shares was being measured at fair value with all changes recognized immediately in income (loss). For the year ended January 30, 2016, the accretion on preferred shares was

\$401 and the changes in the carrying value of the financial derivative liability embedded in preferred shares amounted to \$140,874. The amounts were recorded as a loss in the consolidated statement of income (loss) for the year ended January 30, 2016.

	January 28, 2017	January 30, 2016
	\$	\$
Redeemable preferred shares - Issued and paid		
4,003,724 Series A preferred shares	—	17,955
912,689 Series A-1 preferred shares	—	6,942
152,880 Series A-2 preferred shares	—	1,689
Accrued dividends	—	3,130
Accretion for the year	—	401
Less: unamortized financing fees	—	(471)
Less: conversion of Series A, A-1 and A-2 preferred shares to 8,128,805 common shares	—	(29,646)
Balance, end of year	—	—

	For the year ended January 28, 2017	For the year ended January 30, 2016
	\$	\$
Financial derivative liability		
Balance, beginning of year	—	16,427
New issuances	—	—
Net change in fair value	—	140,874
Less: conversion of Series A, A-1 and A-2 preferred shares to common shares	—	(157,301)
Balance, end of year	—	—

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

17. SHARE CAPITAL

Authorized

An unlimited number of common shares.

	Common shares #	Class AA common shares #	Junior preferred shares #
Number of shares in issuance			
Balance, January 31, 2015	52,022	80,000	7,441,341
Issuance of common shares upon cashless exercise of options	322,739	—	—
Issuance of common shares upon conversion of Class AA common shares	80,000	(80,000)	—
Issuance of 1.6 common share upon conversion of Junior preferred shares	11,906,145	—	(7,441,341)
Issuance of 1.6045 common shares upon conversion of Series A preferred shares	6,423,901	—	—
Issuance of 1.6 common shares upon conversion of Series A-1 and A-2 preferred shares	1,704,904	—	—
Issuance of common shares upon initial public offering	3,414,261	—	—
Issuance of common shares upon exercise of options	133,500	—	—
Balance, January 30, 2016	24,037,472	—	—
Issuance of common shares upon exercise of options	1,236,154	—	—
Issuance of common shares upon vesting of restricted stock units	57,325	—	—
Balance, January 28, 2017	25,330,951	—	—

Issued and outstanding

	January 28, 2017 \$	January 30, 2016 \$
25,330,951 Common shares [January 30, 2016 - 24,037,472 shares]	263,828	259,205
	263,828	259,205

During the year ended January 28, 2017, 1,236,154 stock options were exercised for common shares, for cash proceeds of \$2,779 [January 30, 2016 — 133,500 stock options for cash proceeds of \$143]. The carrying value of common shares during the year ended January 28, 2017 includes \$1,396 which corresponds to a reduction in the contributed surplus associated to options exercised during the period.

In addition, during the year ended January 28, 2017, 57,325 common shares [January 30, 2016 — nil] were issued in relation to the vesting of restricted stock units (“RSU”), resulting in an increase in share capital of \$448, net of tax [January 30, 2016 — nil].

During the year ended January 30, 2016, prior to our IPO on June 10, 2015, 322,739 stock options were exercised for common shares for a non-cash settlement of \$125. On June 10, 2015, immediately prior to the completion of the Company’s IPO, all of the Junior, Series A, A-1 and A-2 preferred shares and Class AA common shares were converted into common shares. As part of the closing of its IPO, the Company issued an aggregate of 3,414,261 common shares for a total gross consideration of \$79,370. Share issuance costs amounted to \$10,661 less a deferred income tax benefit of \$2,923. On June 10, 2015, immediately following the IPO, the Company amended its articles to remove the Junior, Series A, A-1 and A-2 preferred shares and Class AA common shares from its authorized capital.

Stock-based compensation

The 2015 Omnibus Plan provides for awards of stock options, stock appreciation rights (“SARs”), restricted stock, unrestricted stock, stock units (including restricted stock units, “RSUs”), performance awards, deferred share units, elective deferred share units and other awards convertible into or otherwise based on the Company’s common shares. Eligibility for stock options intended to be incentive stock options (“ISOs”) is limited to the Company’s employees. Dividend equivalents may also be provided in connection with an award under the 2015 Omnibus Plan. The maximum term of stock options and SARs is seven years. The options vest evenly over a period of 36 or 48 months, with some options vesting monthly and some options vesting annually. There are no cash settlement alternatives.

The maximum number of the Company’s common shares that are available for issuance under the 2015 Omnibus Plan is 1,440,000 shares. Common shares issued under the 2015 Omnibus Plan may be shares held in treasury or authorized but unissued

shares of the Company not reserved for any other purpose. As at January 28, 2017, 966,651 common shares remain available for issuance under the 2015 Omnibus Plan.

The weighted average fair value of options granted of \$3.72 for the year ended January 28, 2017 [January 30, 2016 — \$4.76] was estimated using the Black Scholes option pricing model, using the following assumptions:

	For the year ended January 28, 2017	For the year ended January 30, 2016
Risk-free interest rate	1.23 %	1.15% - 1.53 %
Expected volatility	29.8 %	31% - 36.5 %
Expected option life	4.0 years	3.7 - 4.0 years
Expected dividend yield	0 %	0 %
Exercise price	\$ 14.39 - \$ 17.99	\$ 15.64 - \$ 17.22

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 year is presented below.

	For the year ended January 28, 2017		For the year ended January 30, 2016	
	Options outstanding #	Weighted average exercise price \$	Options outstanding #	Weighted average exercise price \$
Outstanding, beginning of year	2,146,880	3.04	2,905,648	2.06
Issued	174,031	14.67	33,000	16.64
Exercised	(1,236,154)	2.25	(456,239)	0.86
Cancelled/expired	—	—	(275,529)	0.77
Forfeitures	(151,562)	6.99	(60,000)	3.67
Outstanding, end of year	933,195	5.63	2,146,880	3.04
Exercisable, end of year	624,813	4.69	1,150,149	2.27

The weighted average share price at the date of exercise for options exercised during the year ended January 28, 2017 was \$14.24 [January 30, 2016 — \$16.80].

The following table summarizes information about the stock options outstanding at January 28, 2017 and January 30, 2016:

Range of exercise prices	Number outstanding at January 28, 2017 #	Weighted average contractual remaining life	Weighted average exercise price \$	Number of options exercisable at January 28, 2017 #	Weighted average exercise price \$
\$ 0.77	97,600	3.1 years	0.77	39,600	0.77
\$ 3.33 - \$ 4.31	671,804	4.4 years	4.10	537,203	4.08
\$ 14.39 - \$ 17.99	163,791	4.6 years	14.78	48,010	14.70
As at January 28, 2017	933,195	4.3 years	5.63	624,813	4.69

Range of exercise prices	Number outstanding at January 30, 2016 #	Weighted average contractual remaining life	Weighted average exercise price \$	Number of options exercisable at January 30, 2016 #	Weighted average exercise price \$
\$ 0.63	160,000	0.0 year	0.63	160,000	0.63
\$ 0.77	606,637	3.6 years	0.77	432,795	0.77
\$ 3.33 - \$ 4.31	1,347,243	5.4 years	4.02	557,354	3.90
\$ 15.64	12,000	6.2 years	15.63	—	—
\$ 17.22	21,000	6.6 years	17.22	—	—
As at January 30, 2016	<u>2,146,880</u>	<u>4.5 years</u>	<u>3.04</u>	<u>1,150,149</u>	<u>2.27</u>

A summary of the status of the Company's RSU plan and changes during the year ended January 28, 2017 is presented below.

	For the year ended January 28, 2017		For the year ended January 30, 2016	
	RSUs outstanding #	Weighted average fair value per unit (1) \$	RSUs outstanding #	Weighted average fair value per unit (1) \$
Outstanding, beginning of year	252,720	7.39	—	—
Granted	194,855	15.11	258,480	7.38
Forfeitures	(78,184)	(9.68)	(5,760)	7.07
Vested	(57,325)	(7.82)	—	—
Vested, withheld for tax	(59,833)	(7.90)	—	—
Outstanding, end of year	252,233	12.42	252,720	7.39

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

During the year ended January 28, 2017, the Company recognized a stock-based compensation expense of \$2,264 [January 30, 2016 — \$1,749; January 31, 2015 — \$947].

18. FINANCE COSTS

	January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Interest on loan from the controlling shareholder [note 15]	—	48	210
Interest and financing fees on term loan	75	544	926
Interest on finance lease	—	19	28
Accrued dividends on preferred shares — Series A, A-1 and A-2 [note 16]	—	438	1,178
Other finance costs	1	2	3
	<u>76</u>	<u>1,051</u>	<u>2,345</u>

19. INCOME TAXES

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

	January 28, 2017		January 30, 2016		January 31, 2015	
	%	\$	%	\$	%	\$
Income tax provision (recovery) — statutory rate	26.5	(1,564)	26.5	(34,729)	26.5	1,628
Increase (decrease) in provision for income tax (recovery) resulting from:	—	—	—	—	—	—
Recognition of previously unrecognized U.S. tax losses	—	—	—	—	(52)	(3,170)
Unrecognized benefit on U.S. tax losses and other temporary differences	—	—	—	—	—	—
Non-deductible items and translation adjustments	(10.1)	598	—	—	—	—
Loss from embedded derivative and accretion of Series A, A-1, and A-2 preferred shares	—	—	(28.7)	37,506	6.2	377
Stock based compensation	—	—	(0.6)	769	16.1	982
Other	21.5	(1,269)	(0.9)	1,122	(2.5)	(150)
Income tax recovery — effective tax rate	37.9	(2,235)	(3.7)	4,668	(5.5)	(333)

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

	January 28, 2017	January 30, 2016
	\$	\$
Income tax provision (recovery)		
Current	2,145	3,304
Deferred	(4,380)	1,364
	<u>(2,235)</u>	<u>4,668</u>

The tax effects of temporary differences and net operating losses that give rise to deferred income tax assets and liabilities are as follows:

	January 28, 2017	January 30, 2016
	\$	\$
Deferred income tax assets		
U.S. operating losses carried forward	2,439	3,779
Deferred rent	1,885	1,500
Stock options	5,647	4,154
Financing fees and IPO-related costs	1,801	2,465
Lease inducements	664	227
Provisions	3,365	275
Others	1,175	93
Total deferred income tax assets	16,976	12,493
Deferred income tax liabilities		
Carrying values of property and equipment in excess of tax basis	(2,171)	(2,725)
Unrealized foreign exchange gain on derivative financial instruments	(121)	(914)
Unrealized foreign exchange gain related to intercompany advances	(309)	(977)
Total deferred income tax liabilities	(2,601)	(4,616)
Net deferred income tax assets (liabilities)	14,375	7,877

As at January 28, 2017, the Company's U.S. subsidiary has accumulated losses amounting to US\$14.9 million [January 30, 2016 — US\$9.7 million; January 31, 2015 — US\$5.8 million], which expire during the years 2033 to 2037. Based upon the projections for future taxable income and prudent tax planning strategies, management believes it is probable the Company will realize the benefits of these operating tax losses carried forward. See Note 5 for how the Company determines the extent to which the deferred income tax assets are recognized.

The changes in the net deferred income tax asset were as follows for the fiscal years:

	January 28, 2017 \$	January 30, 2016 \$
Balance net, beginning of year	7,877	2,855
Deferred rent	385	440
Recognition of U.S. operating losses carried forward	(1,340)	633
Carrying value of property and equipment in excess of tax losses	554	(1,532)
Stock options	1,493	4,055
Financing fees and IPO-related costs	(664)	2,306
Foreign exchange gain on derivative financial instrument	793	(914)
Unrealized foreign exchange gain on intercompany advances	668	(428)
Lease inducement	437	227
Provisions	3,090	275
Others	1,082	(40)
Deferred income tax assets net, end of year	14,375	7,877

20. SELLING, GENERAL AND ADMINISTRATION EXPENSES

Included in selling, general and administration expenses are the following expenses:

	January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Wages, salaries and employee benefits	61,143	50,671	41,181
Depreciation of property and equipment	8,069	5,832	4,874
Amortization of intangible assets	758	613	573
Loss on disposal of property and equipment	356	297	31
Impairment of property and equipment	7,516	—	2,740
Provision (recovery) for onerous contracts	8,140	(265)	805
Stock-based compensation	2,264	1,749	947
Executive separation costs related to salary	835	—	—
Other selling, general and administration	25,675	21,219	15,414
	114,756	80,116	66,565

21. EARNINGS PER SHARE

Basic earnings per share ("EPS") amounts are calculated by dividing the net income (loss) for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders (after adjusting for dividends, accretion interest on the mandatorily redeemable preference shares and gain/loss from embedded derivative on preferred shares) by the weighted average number of ordinary shares outstanding during the year 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:

	January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Net income (loss) for basic EPS	(3,688)	(131,431)	6,454
– Dividends on preferred shares	—	—	1,178
– Accretion of preferred shares	—	—	1,044
– Loss from embedded derivative on Series A, A-1, and A-2 preferred shares	—	—	380
Adjusted net income (loss) for diluted EPS	(3,688)	(131,431)	9,056
Weighted average number of shares outstanding — basic	24,699,290	19,776,946	11,984,763
Preferred shares Series A	—	—	6,423,895
Preferred shares Series A-1	—	—	—
Preferred shares Series A-2	—	—	31,072
Restricted stock units	—	—	—
Options	—	—	1,527,116
Weighted average number of shares — fully diluted	24,699,290	19,776,946	19,966,846

For the years ended January 30, 2016 and January 28, 2017, as a result of the net loss during the year, the stock options and RSUs disclosed in Note 17 and the Series A, Series A-1 and Series A-2 preferred shares disclosed in Note 16 are anti-dilutive. For the year ended January 31, 2015, the Series A-1 preferred shares were deemed anti-dilutive.

22. RELATED PARTY DISCLOSURES

During the year ended January 28, 2017, the Company occupied and paid rent on a property leased from a company controlled by the controlling shareholder amounting to nil [January 30, 2016 — \$38; January 31, 2015 — \$175].

During the year ended January 30, 2016 the Company paid \$41 [January 31, 2015 — \$83] for air travel services to a company associated with a board member. The amount was nil for the year ended January 28, 2017.

During the year ended January 30, 2016, interest was incurred on the loan from the controlling shareholder amounting to \$48, [January 31, 2015 — \$210] of which \$48 was paid on June 11, 2015 [January 31, 2015 — nil]. In addition, dividends on Series A, A-1 and A-2 preferred shares were accrued for \$438 [January 31, 2015 — \$1,178]. On June 11, 2015, immediately following the Company's IPO, the advances under the loan from the controlling shareholder were fully repaid using the proceeds from the IPO and cash on hand, and the Series A, A-1 and A-2 preferred shares were converted into common shares.

The transactions referred to above are measured at the exchange amount, being the consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management of the Company includes members of the Board as well as members of the Executive Committee. The compensation earned by key management in aggregate was as follows:

	January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Wages, salaries and bonus	3,460	3,600	3,918
Stock-based compensation	1,377	1,177	832
Total compensation earned by key management personnel	4,837	4,777	4,750

23. SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has reviewed its operations and determined that each of its retail stores represents an operating segment. However, because its retail stores have similar economic characteristics, sell similar products, have similar types of

customers, and use similar distribution channels, the Company has determined that these operating segments can be aggregated at a geographic level. As a result, the Company has concluded that it has two reportable segments, Canada and the U.S., that derive their revenues from the retail and online sale of tea, tea accessories and food and beverages. The Company's Chief Executive Officer (the chief operating decision maker) makes decisions about resources to be allocated to the segments and assesses performance, and for which discrete financial information is available.

The Company derives revenue from the following products:

	January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Tea	143,280	120,022	95,995
Tea accessories	53,807	43,191	31,295
Food and beverages	18,897	17,477	14,593
	<u>215,984</u>	<u>180,690</u>	<u>141,883</u>

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

	January 28, 2017 \$	January 30, 2016 \$	January 31, 2015 \$
Canada	41,432	35,915	30,539
US	12,686	13,657	6,751
Total	<u>54,118</u>	<u>49,572</u>	<u>37,290</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 year ended January 28, 2017		
	Canada \$	US \$	Consolidated \$
Sales	180,380	35,604	215,984
Cost of sales	86,473	21,061	107,534
Gross profit	93,907	14,543	108,450
Selling, general and administration expenses			114,756
Results from operating activities			(6,306)
Finance costs			76
Finance income			(479)
Loss before income taxes			<u>(5,903)</u>

	For the year ended January 30, 2016		
	Canada \$	US \$	Consolidated \$
Sales	156,186	24,504	180,690
Cost of sales	71,657	13,702	85,359
Gross profit	84,529	10,802	95,331
Selling, general and administration expenses			80,116
Results from operating activities			15,215
Finance costs			1,051
Finance income			(348)
Accretion of preferred shares			401
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares			140,874
Loss before income taxes			<u>(126,763)</u>

	For the year ended January 31, 2015		
	Canada	US	Consolidated
	\$	\$	\$
Sales	129,212	12,671	141,883
Cost of sales	56,771	7,414	64,185
Gross profit, before unallocated items	72,441	5,257	77,698
Selling, general and administration expenses			66,565
Results from operating activities			11,133
Finance costs			2,345
Finance income			(133)
Accretion of preferred shares			1,044
Loss from embedded derivative on Series A, A-1 and A-2			
Preferred Shares			380
IPO-related costs			856
Settlement cost related to former option holder			520
Income before income taxes			6,121

24. FINANCIAL RISK MANAGEMENT

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

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 \$29.

The Company's foreign exchange exposure is as follows:

	January 28, 2017 US\$	January 30, 2016 US\$
Cash	690	464
Accounts receivable	1,188	1,126
Accounts payable	2,461	2,092

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

In order to protect itself from the risk of losses should the value of the Canadian dollar decline in relation to the U.S. dollar, the Company has entered into forward contracts to fix the exchange rate of 80% to 90% of its expected U.S. dollar inventory purchasing requirements, through October 2017. A forward foreign exchange contract is a contractual agreement to buy a specific currency at a specific price and date in the future. The Company designated the forward contracts as cash flow hedging instruments under International Accounting Standard 39. This has resulted in mark-to-market foreign exchange adjustments, for qualifying hedged instruments, being recorded as a component of other comprehensive income (loss) for the years ended January 28, 2017 and January 30, 2016. As at January 28, 2017 and January 30, 2016, the designated portion of these hedges was considered effective.

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

	Range of contractual exchange rate	Nominal value US\$	Nominal value C\$	Term	Unrealized gain C\$
Purchase contracts					
U.S. dollar	1.2696 - 1.3098	<u>32,700</u>	<u>42,404</u>	February 2017 to October 2017	<u>454</u>

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

	Range of contractual exchange rate	Nominal value US\$	Nominal value C\$	Term	Unrealized gain C\$
Purchase contracts					
U.S. dollar	1.306	<u>36,550</u>	<u>47,734</u>	February 2016 to October 2016	<u>3,442</u>

Market risk — interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets and liabilities with variable interest rates and consist of cash. The Company is exposed to cash flow risk on its Revolving Facility which bears interest at variable interest rates (see Note 14). As at January 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 January 28, 2017, the Company had \$64,440 in cash. In addition, as outlined in Note 14, the Company has a Revolving Facility of \$20,000, of which nil was drawn as at January 28, 2017. The Revolving Facility also provides for an accordion feature whereby the Company may, at any time prior to the end of the three-year term, 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 14) and cash on hand. The Company expects that its trade and other payables will be discharged within 90 days.

The following table summarizes the obligations as of January 28, 2017, and the effect such obligations are expected to have on liquidity and cash flows in future periods.

	January 28, 2017			
	Payments due by period			
	Total	less than 1 year	Between 1 and 5 years	More than 5 years
Trade and other payables	19,681	19,681	—	—
Operating lease obligations	148,436	19,306	90,891	38,239
Purchase obligations	5,842	5,842	—	—
	<u>173,959</u>	<u>44,829</u>	<u>90,891</u>	<u>38,239</u>

	January 30, 2016			
	Payments due by period			
	Total	less than 1 year	Between 1 and 5 years	More than 5 years
Trade and other payables	14,435	14,435	—	—
Operating lease obligations	127,069	15,647	76,106	35,316
Purchase obligations	6,583	10,373	—	—
	148,087	40,455	76,106	35,316

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 describe how the categories of financial instruments are measured and how income and expenses, including fair value 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.

The classification of financial instruments, as well as their carrying values and fair values, are shown in the tables below:

	January 28, 2017		January 30, 2016	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets				
Derivative financial instruments — foreign forward exchange contracts	454	454	3,442	3,442
Financial liabilities	—	—	—	—

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize or would pay in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

- The estimated fair value of long-term debt bearing variable rates is considered to approximate its carrying value [Level 2].
- The estimated fair value of loan from controlling shareholder was determined by discounting expected cash flows rates currently offered to the Company for similar debt [Level 2].
- The estimated fair value of Series A, A-1 and A-2 preferred shares was determined by discounting expected future cash flows rates at the discount rates which represent the cost of borrowing those cash flows [Level 3].
- The carrying value of the financial derivative liability is its fair value [Level 3].
- The estimated fair value of forward contracts is determined using forward exchange rates at the end of the reporting period [Level 2].

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended January 28, 2017 and January 30, 2016.

Reconciliation of Level 3 fair values

Changes in fair value of Level 3 financial instruments were as follows, for the years ended January 28, 2017 and January 30, 2016.

	Fair value of Level 3 financial instruments	
	January 28, 2017	January 30, 2016
	\$	\$
Balance, beginning of the period	—	16,427
Loss from embedded derivative on Series A, A-1 and A-2 preferred shares	—	140,874
Less: conversion of Series A, A-1 and A-2 preferred shares to common shares	—	(157,301)
Balance, end of period	—	—

25. MANAGEMENT OF CAPITAL

As at January 28, 2017, the Company's capital is composed of shareholders' equity as follows:

	January 28, 2017	January 30, 2016
	\$	\$
Total debt	—	—
Shareholder's equity [excluding accumulated other comprehensive income]	130,263	127,834
Total capital under management	130,263	127,834

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its organic growth, to establish a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for its store expansion and renovation program as well as information technology and infrastructure improvements.

The Company currently funds these requirements from cash flows from operations as well as its financial resources, which include a cash balance of \$64,440 as at January 28, 2017, the Revolving Facility (Note 25 and through its issuances of common shares (Note 17). The Board does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements.

The Company is subject to certain non-financial covenants related to its Revolving Facility, all of which were met as at January 28, 2017 and January 30, 2016. There has been no change with respect to the overall capital risk management strategy during the years ended January 28, 2017 and January 30, 2016.

26. GUARANTEES

Some agreements to which the Company is party, specifically those related to debt agreements and the leasing of its premises, include indemnification provisions that may require the Company to make payments to a third party for breach of fundamental representation and warranty terms in the agreements, with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material obligations. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. As at January 28, 2017, management does not believe that these indemnification provisions would require any material cash payment by the Company, and insurance coverage, estimated by management to be reasonable and sufficient, exists in order to minimize the previously mentioned risks.

The Company indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers as well as those of its subsidiary.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), as of the end of the period covered by this report, or the Evaluation Date. Based upon the evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed by us in our reports filed under the Exchange Act, such as this report, 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 such information is accumulated and communicated to our management, including our principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

For Management’s Report on Internal Control over Financial Reporting, see Item 8, Financial Statements and Supplementary Data.

Changes in Internal Control over Financial Reporting

As disclosed in our Quarterly Reports on Form 10-Q for the quarters ended May 2, 2015, August 1, 2015 and October 31, 2015, we have made changes to our internal control over financial reporting to remediate the material weakness in our internal control over financial reporting identified prior to our initial public offering that related to our controls over the valuation process used in valuing the liability associated with the embedded derivative related to our Series A, A-1 and A-2 preferred shares that automatically converted into common shares in connection with our initial public offering. After completing our testing of the design and operational effectiveness of these controls, our management has concluded that we have remediated the material weakness as of January 28, 2017. Other than those changes related to our remediation efforts, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the year ended January 28, 2017 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III.

ITEM 10. DIRECTORS, DIRECTOR NOMINEES, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Below is a list of the names and ages of our directors, director nominees and officers as of April 11, 2017, and a brief account of the business experience of each of them. Unless otherwise stated, the business address for our directors and officers is c/o DAVIDsTEA Inc., 5430 Ferrier Street, Mount-Royal, Québec, Canada H4P 1M2.

Name	Age	Position
Joel Silver.....	46	President, Chief Executive Officer and Director
Luis Borgen.....	47	Chief Financial Officer
Christine Bullen.....	46	Managing Director, USA
Doug Higginbotham.....	52	Head of Supply Chain
Edmund Noonan.....	50	Head of Global Real Estate and Store Development
Howard Tafler.....	47	Chief Accounting Officer
Maurice Tousson.....	68	Director and Chairman
Emilia Di Raddo.....	59	Director
Tom Folliard.....	54	Director
David W. McCreight.....	54	Director
Lorenzo Salvaggio.....	62	Director
Herschel Segal.....	86	Co-Founder and Director
Sarah Segal.....	32	Director
Michael J. Mardy.....	68	Director
Kathleen C. Tierney.....	71	Director
Gary O'Connor.....	69	Director Nominee
Tyler Gage.....	31	Director Nominee

Joel Silver, President and Chief Executive Officer. Mr. Silver, 46, joined our company in March 2017. Prior to that, Mr. Silver has served in a variety of leadership roles for various consumer goods companies. From 2011 to 2016, Mr. Silver served as General Partner and a member of the board of directors of TrilogyGrowth, a venture capital fund he co-founded. From 2003 to 2011, Mr. Silver held several positions of increasing responsibility at Indigo Books & Music Inc. (TSX:IDG) and has been a member of its board of directors since 2011. Mr. Silver earned his Bachelor's degree from Wilfrid-Laurier University in Canada and his Master's degree of Business Administration from Harvard University. Mr. Silver brings diverse experience with consumer-centric and lifestyle brands. Mr. Silver is a resident of Ontario, Canada.

Luis Borgen, Chief Financial Officer. Mr. Borgen, 47, became our Chief Financial Officer in May 2012. Prior to joining us, Mr. Borgen served as Chief Financial Officer of DaVita HealthCare Partners Inc. from March 2010 to April 2012. From February 2009 to March 2010, Mr. Borgen served as Senior Vice President, Finance for the U.S. retail division of Staples, Inc. From June 2005 until January 2009, Mr. Borgen served as the Vice President, Finance for the U.S. retail division of Staples, Inc. From July 2002 to June 2005, Mr. Borgen served as Vice President, Corporate Financial Planning and Analysis of Staples, Inc. From February 1999 to June 2002, Mr. Borgen served in the corporate treasury department of Staples, Inc., including as Vice President and Assistant Treasurer. Mr. Borgen received a B.S. in Business Management from the United States Air Force Academy, a Masters in Finance from Boston College and an M.B.A. from The University of Chicago. Mr. Borgen is a resident of Massachusetts, USA.

Christine Bullen, Managing Director, USA. Mrs. Bullen, 46, joined the Company as Managing Director, USA in May 2016. On January 28, 2017, she was named Interim President and Chief Executive Officer and director and served in such position until Mr. Silver's appointment on March 12, 2017. On April 12, 2017, she was appointed Chief Operating Officer and President of DAVIDsTEA (USA). Prior to that, Mrs. Bullen served as Vice-President, Direct-to-Consumer & Specialty Channels from January 2009 to May 2016, as Vice-President, Retail from March 2007 to January 2009, and as Director of Merchandising and Marketing from June 2006 to March 2007, at Lindt & Sprüngli. Mrs. Bullen has held the positions of Chief Operating Officer at Leila Rowe, a New York based fashion accessory company, and Director of New Business Development at Elizabeth Arden, Inc. Mrs. Bullen received a Certification in Leadership Best Practices from Harvard University. Mrs. Bullen brings significant experience in the retail industry to the Board. Mrs. Bullen is a resident of New Hampshire, USA.

Doug Higginbotham, Head of Supply Chain. Mr. Higginbotham, 52, became our Head of Supply Chain in August 2013. From 2010 to 2013, Mr. Higginbotham was with McNairn Packaging based in Ontario, Canada, in the role of Vice President of Supply Chain for North America Operations. Prior to that, Mr. Higginbotham held various roles at Yankee Candle over a ten year

span, including Vice President of Purchasing & Logistics, Vice President of Purchasing & Quality, and Vice President of Logistics. Mr. Higginbotham received a BS in Business Administration/Management from the University of Phoenix and a MBA in Global Management from the University of Phoenix. Mr. Higginbotham is a resident of Massachusetts, USA.

Edmund Noonan, Head of Global Real Estate and Store Development. Mr. Noonan, 50, became our Head of Store Development in October 2014 and Head of Global Real Estate in March 2015. Prior to that, Mr. Noonan served in increasing roles of responsibility at Abercrombie & Fitch, Inc. from January 2008 through September 2014, including Vice President, Real Estate for the United States & Canada, Vice President, Capital, Real Estate Finance & Accounting and Senior Director, Corporate Finance. Mr. Noonan received a B.S. in Finance and Political Science from Miami University and an M.B.A. in Finance from The Ohio State University. Mr. Noonan is a resident of Ohio, USA.

Howard Tafler, Chief Accounting Officer. Mr. Tafler, 47, joined our Company in January 2010 and serves as our Chief Accounting Officer. Prior to joining the Company, Mr. Tafler worked at a national accounting firm and was the Chief Financial Officer of a manufacturing company from 2003 to 2009. Mr. Tafler received a Bachelor of Commerce in Accounting from McGill University. Mr. Tafler is also a chartered accountant and a CPA. Mr. Tafler is a resident of Québec, Canada.

Maurice Tousson, Chairman. Mr. Tousson, 68, has served as President and Chief Executive Officer of CDREM Group Inc., a Canada based chain of retail stores known as Centre du Rasoir or Personal Edge from January 2000 to December 2016. Mr. Tousson has held executive positions at well-known Canadian specialty stores, including Chateau Stores of Canada, Consumers Distributing and Sports Experts, with responsibilities for operations, finance, marketing and corporate development. Mr. Tousson currently sits on the Board of Directors of Dorel Industries (TSE: DII), a multinational public company where he acts as Lead Director. Mr. Tousson holds an MBA degree from Long Island University in New York. Mr. Tousson brings valuable management and retail experience to the Board. Mr. Tousson is a resident of Toronto, Canada.

Emilia Di Raddo, Director. Mrs. Di Raddo, 59, has been a director since 2012, except between January 2013 to March 2014. She has been the President of Le Chateau Inc. (TSX: CTU/A) since 2000, where she has been serving on the Board of Directors since 2001, and was Chief Financial Officer from 1996 to 2000. Prior to that, Mrs. Di Raddo was a partner at Ernst & Young LLP where she practiced for more than 15 years for companies operating in the retail and consumer products' industry. Mrs. Di Raddo received a Bachelor of Commerce and a Diploma in Accountancy from Concordia University and is also a chartered accountant and a CPA. Mrs. Di Raddo brings valuable retail industry experience to the Board. Mrs. Di Raddo is a resident of Québec, Canada.

Tom Folliard, Director. Mr. Folliard, 54, became a director in 2014. He has served as the President and Chief Executive Officer of CarMax, Inc. from 2006 until February 2016 when he ceased to serve as the President. Prior to that, Mr. Folliard served as executive vice president of store operations from 2001 to 2006 and vice president of merchandising from 1996 to 2001. Mr. Folliard serves on the Board of Directors of CarMax, Inc. (NYSE: KMX) and Pulte Group (NYSE: PHM). Mr. Folliard received a B.S. in Management from Florida Institute of Technology. Mr. Folliard brings valuable management and retail experience to the Board. Mr. Folliard is a resident of Massachusetts, USA.

Michael J. Mardy, Director. Mr. Mardy, 68, has served as Executive Vice President and Director of specialty retailer, Tumi Inc. since July 2003. Prior to joining Tumi, from 1996 to 2002, he served as Executive Vice President and CFO of Keystone Food LLC, a processor and distributor. From 1982 to 1996, he served as Senior Vice President, Chief Financial Officer and in various other finance positions at Nabisco Biscuit Company, a snack food and consumer products company. Mr. Mardy served on the board of directors of Keurig Green Mountain Inc. (Nasdaq: GMCR) and ModusLink Global Solutions (Nasdaq: MLNK), Inc. acting as audit committee chair and a member of their respective compensation committees. Mr. Mardy also served on the NYSE Advisory Board and is a trustee of the New Jersey chapter of the Financial Executive Institute, as well as a member of the board of the Eden Institute for Autism. Mr. Mardy holds an MBA from Rutgers University and undergraduate degree from Princeton University. He is a member of the American institute of Certified Public Accountants, and the New Jersey Society of Certified Public Accountants. Mr. Mardy brings valuable management, retail and finance experience to the Board. Mr. Mardy is a resident of New Jersey, USA.

David W. McCreight, Director. Mr. McCreight, 54, became in director in 2014. He has served as President of URBN Inc. and Chief Executive Officer of Anthropologie Group since February 2016. Prior to that, Mr. McCreight was Chief Executive Officer of Anthropologie Group from November 2011 until February 2016, President of Under Armour, Inc. from 2008 until 2010 and President of Lands' End, Inc. from 2005 to 2008. Mr. McCreight also held the position of Senior Vice President of Merchandising at Lands' End from 2003 to 2005 and Senior Vice President and General Merchandising Manager of Disney Stores from 2001 to 2003. Mr. McCreight received a B.A. in Liberal Arts from the University of Virginia. Mr. McCreight is qualified to serve on the Board given his experiences described above and his understanding of the retail industry. Mr. McCreight is a resident of Maryland, USA.

Gary O'Connor, Director. Mr. O'Connor, 69, was an audit partner at KPMG Barbados from September 2009 to September 2012, at which time he retired. He has served on the Board of Investor Restaurant Group Inc. since March 2014 where he also chairs the Audit and Risks Committee. Mr. O'Connor received a Bachelor of Commerce in Accounting from Concordia University. Mr. O'Connor brings accounting experience to the Board. Mr. O'Connor is a resident of Québec, Canada.

Lorenzo Salvaggio, Director. Mr. Salvaggio, 62, became a director in 2014. He has close to forty years of business experience in banking, accounting, retail and manufacturing. He serves as the Vice President, Secretary and Chief Operating Officer of Rainy Day Investments Ltd. Prior to that, he served as Chief Financial Officer of Les Distribution Regitan Ltd., a food wholesaler, from October 2012 to May 2014 and from July 2005 to October 2012 was a consultant at and owner of Lyceum Management Services Inc., a consulting firm focused on corporate turn-around and M&A. Mr. Salvaggio received a Bachelor of Commerce in Accounting from Concordia University and continued his studies at McGill University to obtain both his Diploma in Accountancy and a Certified Management Accountant (C.M.A.) accreditation. Mr. Salvaggio is a CPA and CMA. Mr. Salvaggio brings significant management and accounting experience to the Board. Mr. Salvaggio is a resident of Québec, Canada.

Herschel Segal, Co-Founder and Director. Since January 1969, Mr. Segal, 86, has served as the President and Chief Executive Officer of Rainy Day Investments Ltd., an investment company. Mr. Segal founded Le Chateau Inc. (TSX: CTU/A), a clothing retailer, in 1959 and served as its Chief Executive Officer until September 2006, where he also served as Executive Chairman until February 2007 and where he is still a director. Mr. Segal received a B.A. in Economics and Political Science from McGill University. Mr. Segal brings vast retail industry experience to the Board. Mr. Segal is a resident of Québec, Canada.

Sarah Segal, Director. Ms. Segal, 32, became a director in 2012. She served as the President and Head of Product Development and Tea Department from December 2010 to September 2012. Since May 2013, Ms. Segal has served as the Chief Executive Officer of the retail company SQUISH Candy, based in Montreal, Quebec. Ms. Segal received a B.A. in Environmental Health from McGill University and a M.Sc. in Water Science, Policy and Management from Oxford University. Ms. Segal brings knowledge of the Company and retail experience to the Board. Ms. Segal is a resident of Québec, Canada.

Kathleen C. Tierney, Director. Ms. Tierney, 71, has served as Chief Executive Officer of specialty retailer Sur La Table, Inc. from August 2004 to 2008 and served as its Executive Vice Chairman from 2008 to 2011. From 2001 to 2003, she served as Chief Executive Officer of Fitch North America. She served as an Independent Consultant with a client roster including The Home Depot, Viquiry, Yoga Works and Hirsch Bedner Design. Prior to this, Ms. Tierney was the Chief Executive Officer at Smith & Hawken from 1993 to 1999. During her tenure at The Nature Company, she served as an Executive Vice President, overseeing their growth from 3 locations to 120 stores nationwide. She has a rich background in the Retail Industry and International business and travel. Ms. Tierney earned a B.A. in English Literature from Dominican College in California, served two years in the Peace Corps, holds a lifetime teaching credential from the State of California and a Strategic Marketing Certificate from Harvard University. Ms. Tierney brings valuable management and retail experience to the Board. Ms. Tierney is a resident of California, USA.

Tyler Gage, Director. Mr. Gage, 31, is the Co-Founder of Runa, LLC, a privately held organic Amazonian beverage company that processes and sells guayusa. Prior to that, Mr. Gage served as CEO of Quito, Ecuador & Brooklyn, NY, a social venture that produces fair-trade, organic Guayusa tea, from December 2008 until December 2016, where he now serves as Chairman of the board of since December 2016. Mr. Gage received a Bachelor of Literary Arts from Brown University in December 2008. Mr. Gage was featured as 30 Under 30 Entrepreneurs 2013, by Forbes Magazine, as well as Big Apple Entrepreneur of the Year 2016. Mr. Gage brings valuable beverage and tea development experience to the Board.

Family Relationships

Our co-founder and one of our directors, Herschel Segal, is the father of Sarah Segal, who is also currently one of our directors.

Audit Committee

Function of Audit Committee

The Audit Committee of the Board of Directors (the "Audit Committee") operates under a written charter adopted by the Board of Directors. The charter contains a detailed description of the scope of the Audit Committee's responsibilities and how they will be carried out. The Audit Committee's charter is available on our Investor Relations website at <http://ir.davidstea.com> under "Corporate Governance" and on SEDAR at www.sedar.com. The Audit Committee's primary responsibilities and duties include:

- appointing, compensating, retaining and overseeing the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services and reviewing and appraising the audit efforts of our independent accountants;
- establishing procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and (ii) confidential and anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters;
- engaging independent counsel and other advisers, as necessary;
- determining funding of various services provided by accountants or advisers retained by the committee;
- reviewing our financial reporting processes and internal controls;
- reviewing and approving related-party transactions or recommending related-party transactions for review by independent members of our Board of Directors; and
- providing an open avenue of communication among the independent accountants, financial and senior management and the Board.

Independence of Audit Committee Members

Our Audit Committee consists of Michael J. Mardy, Tom Folliard and Maurice Tousson, with Michael J. Mardy serving as Chairman of the committee. The Board determined that each of them meets the independence requirements under the rules of The NASDAQ Global Market and under Rule 10A-3 under the Exchange Act. Emilia Di Raddo was a member of the Audit Committee until April 12, 2016, following which our Audit Committee consisted exclusively of independent directors.

Audit Committee Financial Expert

The Board has determined that Michael J. Mardy is an “Audit Committee financial expert.” All members of our Audit Committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and The NASDAQ Global Market.

Audited Financial Statements Included in Annual Report

Management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements and for the public reporting process. Ernst & Young LLP (“EY”), the Company’s independent registered public accounting firm, is responsible for expressing opinions on the conformity of the Company’s audited consolidated financial statements with International Financial Reporting Standards.

The Audit Committee has reviewed and discussed with management and EY the Company’s audited consolidated financial statements for the year ended January 28, 2017 and Management’s Discussion and Analysis of Financial Condition and Results of Operation.

The Audit Committee also has discussed with EY the matters required to be discussed by the Public Company Accounting Oversight Board (“PCAOB”) AU Section 380, “Communication with Audit Committees.” The Audit Committee also received the written disclosures and the letter from EY that are required by PCAOB Rule 3526, “Communication with Audit Committees Concerning Independence,” and has discussed with EY its independence. The Audit Committee also considered whether EY’s provision of non-audit services to the Company is compatible with maintaining EY’s independence. This discussion and disclosure informed the Audit Committee of EY’s independence and assisted the Audit Committee in evaluating that independence. On the basis of the foregoing, the Audit Committee concluded that EY is independent from the Company, its affiliates and management.

Based upon its review of the Company’s audited consolidated financial statements and the discussions noted above, the Audit Committee recommended to the Board of Directors that our audited consolidated financial statements for the year ended January 28, 2017 be included in the Company’s Annual Report on Form 10-K for such fiscal year for filing with the SEC. This report has been furnished by the members of the Audit Committee.

Michael J. Mardy, Chair
Tom Folliard
Maurice Tousson

Corporate Governance

Statement of Corporate Governance Practices

As a Canadian reporting issuer with securities listed on the NASDAQ, DAVIDsTEA complies with all applicable rules adopted by the Canadian Securities Administrators (the “CSA”) and the SEC. As a Canadian issuer, DAVIDsTEA is exempt from complying with many of the NASDAQ Corporate Governance Standards (the “NASDAQ Standards”), provided that DAVIDsTEA complies with Canadian governance requirements. DAVIDsTEA also complies with National Instrument 58-101 - Disclosure of Corporate Governance Practices (the “CSA Disclosure Instrument”) and National Policy 58-201 (Corporate Governance Guidelines (the “CSA Governance Policy”). The CSA Governance Policy provides guidance on governance practices for Canadian issuers. The CSA Disclosure Instrument requires issuers to make the prescribed disclosure regarding their governance practices. The Board is of the view that DAVIDsTEA’s corporate governance practices satisfy the requirements of the CSA Disclosure Instrument and the Corporate Governance Policy, as reflected in the disclosure made hereunder. The Board of Directors has approved the disclosure of DAVIDsTEA’s corporate governance practices described below, on the recommendation of the Human Resources and Compensation Committee (“HRCC”).

The Board of Directors considers corporate governance practices to be an important factor in the overall success of the Company. The Board of Directors also intends to adopt additional corporate governance guidelines to assist it with its corporate governance responsibilities. These guidelines will set out general guidelines relating to the responsibilities, organization and membership of the Board of Directors, the composition and membership of the various committees, meetings of the Board, director compensation, the evaluation of management and succession planning.

Board of Directors

Independence

The Board of Directors consists of ten directors, nine of whom are non-employee directors. Each director was elected at the Annual Shareholders’ meeting held on June 9, 2016 except for Mr. Silver who was appointed in replacement of Mrs. Bullen who had filled the vacancy left by Mr. Toutant following his departure effective January 29, 2017. Our directors are appointed for a one-year term to hold office until the next annual general meeting of Shareholders or until their earlier resignation or removal from office in accordance with the Company’s by-laws.

Five of our ten directors that make up the Board of Directors are considered “independent” pursuant to Section 1.4 of the CSA’s Audit Committee Rules. Under these rules, Maurice Tousson, the Chairman of the Board of Directors, Tom Folliard, David McCreight, Michael J. Mardy, Gary O’Connor and Kathleen C. Tierney are considered independent, whereas Emilia Di Raddo, Lorenzo Salvaggio, Hershel Segal, Sarah Segal and Joel Silver are not considered to be independent as a result of their respective relationships with the Company or their relationships with other non-independent members of the Board of Directors. The independence of directors is determined by the Board based on the results of independence questionnaires completed by each director annually, as well as other factual circumstances reviewed on an ongoing basis.

To enhance the independent judgment of the Board of Directors, despite the fact that a majority of our directors are not independent, the independent members of the Board of Directors may meet in the absence of members of management and the non-independent directors. An in camera session is now scheduled as part of every meeting of the Board of Directors and its committees to allow independent directors to meet without non-independent directors and members of management, as necessary. All non-independent directors are responsible to the Board of Directors as a whole and have a duty of care to the Company.

The Board of Directors has a written mandate delineating its roles and responsibilities. It can be found on the Company’s website at <http://ir.davidstea.com> and on SEDAR at www.sedar.com.

Chair of the Board

The Board of Directors is led by a non-executive, independent Chairman, which the Company believes contributes to the Board’s ability to function independently of management. Mr. Maurice Tousson has been a director of the Company since 2016 at which time he also became the Chairman of the Board. As Chairman of the Board, Mr. Maurice Tousson is responsible for overseeing the Board in carrying out its roles and responsibilities, which includes overseeing that the Board’s duties and responsibilities are carried out independently of management. See “Position Description” below for further detail on the role of the Chairman.

Conflicts of Interest

In accordance with applicable law and DAVIDsTEA's policy, each director is required to disclose to the Board any potential conflict of interest he or she may have in a matter before the Board or a Committee thereof at the beginning of the Board or committee meeting. A director who is in a potential conflict of interest must not attend any part of the meeting during which the matter is discussed or participate in a vote on such matter.

Formal Position Descriptions

The Board has adopted formal position descriptions for the Chairman of the Board and the Board Committee Chairs, as well as for the President and CEO.

Chairman of the Board

The Board of Directors has adopted a written position description for the Chairman of the Board of Directors and each of the Committee chairs, which sets out each of the chairs' key responsibilities, including duties relating to setting meeting agendas, chairing meetings and working with the respective committee and management to ensure, to the greatest extent possible, the effective functioning of the committee and the Board of Directors.

The primary responsibility of the Chairman is to provide leadership to the Board to enhance Board effectiveness. The Chair of the Board must oversee that the relationship between the Board, management, Shareholders and other stakeholders are effective, efficient and further to the best interests of the Company.

Committee Chairs

The position descriptions of each Committee Chair provide that each Chair's key role is to manage his or her respective Committee and ensure that the Committee carries out its mandate effectively. Like the Chairman of the Board, each Committee Chair is expected to provide leadership to enhance the Committee's effectiveness and must oversee the Committee's discharge of its duties and responsibilities. Committee Chairs must report regularly to the Board on the business of their respective committee.

President and CEO

The primary responsibility of the President and CEO is to lead the Company by providing strategic direction that includes the development and implementation of plans, policies, strategies and budgets for the growth and profitable operation of the Company. The Board of Directors has, together with the CEO, developed a written position description for the CEO which sets out the Chief Executive Officer's key responsibilities, including duties relating to strategic planning, operational direction, Board of Directors interaction, building an effective management team and communication with shareholders.

The HRCC, together with the Chairman of the Board and the President and CEO, develop yearly goals and objectives that the President and CEO is responsible for meeting. The HRCC and the Chairman of the Board evaluate the President and CEO's performance in light of such goals and objectives and establish his compensation based on this evaluation. The corporate objectives that the President and CEO is responsible for meeting, with the rest of management placed under his supervision, are determined by the strategic plans and the budgets as they are approved each year by the Board.

Election of Directors

The articles of the Company (the "**Articles**") provide that the Board shall consist of not less than three (3) and not more than fifteen (15) directors. Five (5) of the nominees are currently members of the Board of Directors and have been members since the dates indicated below. Messrs. Folliard and Salvaggio together with Mrs. Tierney, current members of the Board, will not be standing for election. However, the Board is nominating Gary O'Connor, as a new independent member of the Board, such that, as a result, the Board has reduced at eight (8) the number of directors to be elected to the Board at the Meeting. Shareholders may vote for each director individually. If prior to the Meeting, any of the nominees shall be unable or, for any reason, become unwilling to serve as a director, it is intended that the discretionary power granted by the form of proxy or voting instruction form shall be used to vote for any other person or persons as directors. Each director is elected for a one-year term ending at the next annual meeting of Shareholders or when his or her successor is elected, unless he or she resigns or his or her office otherwise becomes vacant.

Committees of the Board

The Board has established the Audit Committee, the HRCC and the Corporate Governance and Nominating Committee and has delegated to each of these committees certain responsibilities that are set forth in their respective mandates.

Human Resources and Compensation Committee

The HRCC's primary purpose, with respect to compensation, is to assist the Board of Directors in fulfilling its oversight responsibilities and to make recommendations to the Board of Directors with respect to the compensation of the directors and executive officers. Although not comprised solely of independent directors, the Board of Directors believes that the HRCC is able to carry out its mandate in the same manner as if the committee were comprised entirely of independent directors. Independent consultants may also be periodically retained to assist the HRCC in fulfilling its responsibilities when needed. Furthermore, the HRCC is responsible for corporate governance matters. As required in its mandate, the HRCC is composed of a majority of independent directors, including the Chairman of the committee that must qualify as an independent director. The five current members of the HRCC are Mrs. Tierney (Chair) and Mrs. Di Raddo, as well as Messrs. McCreight, Salvaggio and Tousson. A copy of the charter of the HRCC is available on the Company's website at <http://ir.davidstea.com> and on SEDAR at www.sedar.com.

Corporate Governance and Nominating Committee

The five current members of the Corporate Governance and Nominating Committee are Mr. Folliard (Chair), Messrs. Mardy, McCreight and Segal as well as Ms. Segal. A copy of the charter of the Corporate Governance and Nominating Committee is available on the Company's website at <http://ir.davidstea.com> and on SEDAR at www.sedar.com.

Board and Committee Meetings

In Camera Sessions

To maintain independence from management, the independent Board members meet at least annually and may meet at each quarterly and special Board meeting, without the presence of management and under the chairmanship of the independent Chairman of the Board. Similarly, each of the Company's committees may hold separate sessions without management present under the chairmanship of its committee Chair at least annually and may hold one at each quarterly and special committee meeting.

Ethical Business Conduct

The Company's Code of Ethics (the "Code of Ethics") is applicable to all DAVIDsTEA's directors, senior managers and financial officers and has been developed to promote the honest and ethical conduct of our directors, senior managers and financial officers, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; to promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by the Company; and to promote compliance with all applicable rules and regulations that apply to the Company and its officers. A copy of the Code of Ethics is available on the Company's website at <http://ir.davidstea.com> and on SEDAR at www.sedar.com. The Code of Ethics addresses several matters, including conflicts of interest, integrity of corporate records, confidentiality of corporate information, protection and use of corporate assets and opportunities, insider trading, compliance with laws and reporting of unethical or illegal behaviour. No waiver has ever been granted to a director or executive officer in connection with the Code of Ethics.

In addition to monitoring compliance with the Code of Ethics, the Board has adopted whistleblowing procedures for reporting unethical or questionable acts by the Company or employees thereof. Complaints can be made via telephone at a confidential line called the integrity line. Any Human Resources-related question is redirected to our Chief Human Resources Officer while any issue of misconduct or fraud is redirected to the Chair of the Audit Committee who is responsible to oversee the whistleblowing procedures.

Board, Committees and Directors Performance Assessment

On an annual basis, the Chairman of the Board is responsible for the process of assessing the performance and effectiveness of the Board as a whole, the Board Committees, Committee Chairs and individual directors. Questionnaires are distributed to each director for the purpose of (i) evaluating the Board's responsibilities and functions, its operations, how it compares with boards of other companies on which the directors serve and the performance of the Board's Committees and (ii) inviting directors to make suggestions for improving the performance of the Chairman of the Board, Committee Chairs and individual directors. The questionnaire completed by the Chairman of the Board is submitted to the Chair of the HRCC Committee. The results of the questionnaires are compiled by the

Corporate Secretary on a confidential basis to encourage full and frank commentary. In addition, the Chairman of the Board discusses with each Board member individually in order to discuss the questionnaires and also meets the Chair of the HRCC Committee who is responsible for his assessment. The results of the questionnaires as well as any issues raised during individual discussions are presented and discussed at a following meeting of the Board. At all times, Board members are free to discuss among themselves the performance of a fellow director, or submit such a matter to the Chairman of the Board. Based on the outcome of the discussion, the Chairman of the Board then presents to the Board the assessment's findings and its recommendations to enhance the performance and effectiveness of the Board and its Committees.

Director Selection

Skills and Experience of Directors

The process by which the Board establishes new candidates for Board nominations lies within the discretion of the Board of Directors with a view of the best interests of the Company and in accordance with the corporate governance guidelines. Pursuant to the governing statutes, Articles and by-laws, new candidates for Board nominations can be proposed by the Shareholders and will be voted on by the Shareholders at each annual meeting of Shareholders.

Nomination of Directors

Before making a recommendation on a new director candidate, the Chairman of the Board and different Board members meet with the candidate to discuss the candidate's interest and ability to devote the time and commitment required to serve on the Board. In certain circumstances, the Board may also retain an independent recruiting firm to identify director candidates and fix such firm's fees and other retention terms.

The Board does not impose nor does it believe that it should establish term limits or retirement age limits on its directors, as such limits may cause the loss of experience and expertise important to the optimal operation of the Board.

Diversity and Gender Diversity

The Company does not have a formal policy on diversity on the Board of Directors or in senior management positions. The Company is, however, mindful of the benefit of diversity of the Board of Directors and senior management, including the representation of women on the Board and in senior management positions, and the need to maximize their effectiveness and respective decision-making abilities. Accordingly, in searches for new candidates, while the Company seeks to recruit or appoint the most qualified individuals for particular positions, it considers the merit of potential candidates based on a balance of skills, background, experience and knowledge, including taking into consideration diversity such as gender, age and geographic areas.

Director Orientation and Continuing Education

Orientation

The HRCC Committee is responsible for developing, monitoring and reviewing the Company's orientation and continuing education programs for directors. New directors are provided with an information package on the Company's business, its strategic and operational business plans, its operating performance, its governance system and its financial position. Also, new directors meet individually with the President and Chief Executive Officer and other senior executives to discuss these matters. The Board ensures that prospective candidates fully understand the role of the Board and its Committees and the contribution that individual directors are expected to make, including, in particular, the personal commitment that the Company expects of its directors.

Continuing Education

All Board members have visited a few DAVIDsTEA's stores. Management makes presentations to the Board members on a range of topics that are relevant to the operations. Senior management makes regular presentations to the Board and its committees to educate them and keep them informed of developments within the Company's main areas of business and operations, as well as on key legal, regulatory and industry developments. Directors attend an annual strategic planning meeting, where management presents the Company's short, mid and long-term strategic plan. Directors are also provided with Board and Board committee materials at least one week in advance of regularly scheduled meetings. Directors also receive periodic updates between Board meetings on matters that affect the Company's business. Finally, Board members have full access to the Company's senior management and employees.

ITEM 11. EXECUTIVE COMPENSATION

This section discusses the material components of the executive compensation program for our executive officers who are named in the "2016 Summary Compensation Table" below. In Fiscal 2016, our "named executive officers" and their positions were as follows:

- Sylvain Toutant, President and Chief Executive Officer until his departure effective January 29, 2017
- Luis Borgen, Chief Financial Officer
- Christine Bullen, Managing Director, USA
- Edmund Noonan III, Head of Global Real Estate and Store Development
- Isabelle Grisé, Chief Merchandising and Marketing Officer until her departure effective January 19, 2017

This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from the currently planned programs summarized in this discussion. See Part I on Form 10-K "Cautionary Note Regarding Forward-Looking Statements."

Summary Compensation Table

Executive and Director Compensation

The following relates to the compensation of the named executive officers for the fiscal year ended January 28, 2017. Our "Named Executive Officers", being the President and Chief Executive Officer of the Company ("CEO") until January 28, 2017, the last day of our fiscal year, our Chief Financial Officer ("CFO"), and the three most highly compensated executive officers of the Company, including any of its subsidiaries, who each earned total compensation that exceeded \$100,000 for the fiscal year ended January 28, 2017, are:

- Mr. Toutant, President and CEO until his departure effective January 29 2017;
- Mr. Borgen, CFO;
- Mrs. Bullen, Managing Director, USA;
- Mr. Noonan III, Head of Global Real Estate and Store Development; and
- Mrs. Grisé, Chief Merchandising and Marketing Officer until her departure effective January 19, 2017.

Each year, the HRCC reviews and determines the compensation of the Named Executive Officers.

Compensation Philosophy and Overview of Components

The objectives of the compensation program are to attract, retain and motivate highly skilled executives, to reward them for their performance and contributions to the Company's short- and long-term success, and to align the interests of our executive officers with those of the shareholders. The compensation of each executive officer is determined based on a number of factors, including the executive officer's qualifications and experience, role, responsibilities and contributions, as well as the market and our financial condition.

The compensation program includes incentive programs intended to align executive compensation with the Company's performance, to motivate our executive officers to work toward the achievement of our short- and long-term corporate objectives, including strategic goals and increasing shareholder value and, where appropriate, to reward superior performance. The named executive officers are also entitled to receive benefits and executive perquisites in accordance with the Company's policies.

The compensation program aims at striking the right balance between fixed and variable compensation so as to keep the executives motivated to thrive in achieving the operating and financial goals, while promoting a prudent risk-taking culture.

Below are the main compensation components we use, as well as the reasoning behind their utilization.

	Fixed Compensation Component			Variable Compensation Component	
	Base Salary	Group Insurance Benefits	Perquisites	Annual Incentive Program	Long-Term Incentives
Objective and Basis	- Attract and retain qualified and competent executives - Provide base compensation that is competitive for each role	- Provide for the wellness of the executives - Protect executives and their families	Limited executive perquisites to stimulate performance	- Drive Company performance where appropriate - Align executive compensation with Company performance - Reward superior performance	- Attract and retain executives through long-term vesting and potential wealth accumulation - Drive long-term Shareholder returns, promote growth and sustainability - Align executive compensation with Shareholder interests by making a significant portion of compensation variable
Positioning	Target market median; adjusted for individual experience and competencies	Target slightly below general market practices	Target slightly below market	Target market median for design/payouts depends on performance	Opportunity commensurate with developing, high growth companies
Form and Timing	Cash	- Health insurance - Group Insurance Program	Employee product discount	Cash	- Generally, (as determined annually by the HRCC): - Stock options (50%) with a 7-year term, vesting between three and four years depending on the award. - Restricted stock units (50%) vesting over 3 years.

The table below illustrates the proportion of each compensation component comprising the total direct compensation of the named executive officers at target level.

Name	Base Salary (%)	Target Bonus (%)	Target Long-Term Incentives (%)
Sylvain Toutant	36.4%	27.3%	36.4%
Luis Borgen	55.6%	22.2%	22.2%
Christine Bullen	60.6%	18.2%	21.2%
Edmund Noonan III	60.6%	18.2%	21.2%
Isabelle Grisé	60.6%	18.2%	21.2%

Benchmarking

To ensure that its compensation programs are competitive, DAVIDsTEA conducts periodic benchmarking studies based on compensation data included in management proxy circulars and published surveys from known firms, with an objective that the target total direct compensation for the senior management team be positioned in line with the Company's compensation philosophy and components detailed in the above section. The current compensation comparator group was developed from Canadian and U.S. publicly-traded companies that either specialize in beverage and/or drinks, packaged food or specialty retail outlets following analysis done by the Company's independent compensation consultants. In choosing the companies, attention was also given to the size of revenues, EBITDA and market capitalization to ensure they were in a range comparable with DAVIDsTEA. Below is the list of the 17 organizations comprising the compensation comparator group:

U.S. Food and Beverage Sector		U.S. Specialty Retailers	Canada Food and Beverage Sector
Rocky Mountain Chocolate Factory Inc.	Inventure Foods	Vera Bradley Inc.	Andrew Peller Ltd
Crystal Rock Holding	LifeVantage Corporation	Francesca's Holdings	Corby Spirit and Wine Ltd
Amplify Snack Brands	Craft Brew Alliance Inc.	Bebe Stores Inc.	Ten Peaks Coffee Company
Nature's Sunshine Products	Coffee Holding		MTY Group
Jamba Inc.			The Second Cup

Compensation Risk Oversight

The Board of Directors and the HRCC are very mindful of risks associated with the Company's compensation policies and practices and take into account their implications when making compensation decisions. At this time, there have been no risks identified that are likely to have material adverse effects on the Company, its operations or finances.

In order to limit the chances of creating compensation policies that would encourage named executive officers to take excessive or inappropriate risks, the Board and the HRCC have adopted a number of practices and policies designed to safeguard the Company's and its Shareholders' interests.

The Use of an Independent Compensation Consultant

The HRCC retained the services of PCI – Perrault Consulting ("PCI"), an independent compensation consultant, in 2014, to assist the Board and the committee with executive and other compensation matters. During the fiscal year ended January 28, 2017, PCI assisted the HRCC with a few mandates including the review of the compensation of Board members. Most of these mandates have required in camera discussion with the HRCC and its Chair, without the presence of management.

The table below presents the fees paid to PCI during the three most recent fiscal years:

Year	Consultant	Executive Compensation	Other Mandates	Total Fees
2016	PCI	C\$3,396	—	C\$3,396
	% of total fees	100%	0%	100%
2015	PCI	C\$36,634	—	C\$36,634
	% of total fees	100%	0%	100%

The Balance between Fixed and Variable Compensation

While the HRCC believes it is important to link a significant portion of each named executive officers' total direct compensation to goals related to the Company's share price and financial results, the HRCC also want to ensure that we do not create incentives to take excessive risks to achieve such goals. As such, the HRCC make sure that the fixed portion of compensation represents a sufficient portion of the named executive officers' compensation program. The HRCC has approved for Fiscal 2016, a cap on the maximum amount payable under the annual incentive program at two times target level, which limits the upside from the plan at a reasonable level to motivate the executives, while remaining within the Company's risk appetite framework.

The Choice of Performance Measures

The HRCC decided to apply the same performance measures and objectives to the annual awards for all of the named executive officers, which promotes a culture of collaboration and prioritizes efforts to achieve the desired results, while reducing the risks of an individual taking excessive risks for personal benefit. The HRCC also believes that Adjusted EBITDA is a significant measure of the Company's growth and is well understood by employees, shareholders and investors and therefore represents a logical choice of performance measure for the annual incentive program.

The Insider Trading Policy

The Company has adopted an insider trading policy that regulates the equity transactions of all of the employees but most notably of directors and officers. In addition to being only authorized to trade the Company's securities during insider trading windows (which open the second full day after financial results are released each quarter to permit market adjustments), all of their transactions, must be pre-approved and cleared by the Corporate Secretary so as to avoid even the appearance of trading based on non-public information.

Hedging Prohibition

Hedging transactions can be accomplished through a variety of mechanisms including prepaid forward contracts, equity swaps and collars and other similar devices. Because hedging transactions permit the holder of the securities to continue to own them without the full risks and rewards of ownership, they can cause the interests of such person not to be aligned with the other Shareholders and therefore the employees, officers and directors are prohibited from hedging any equity-based compensation or Company shares.

Automatic Securities Disposition Plan (10b5-1 Plan)

Automatic Securities Disposition Plans are permitted under the Insider Trading Policy and must be approved by the Corporate Secretary and meet the requirements of the Securities Act (Québec) and similar rules and regulations in other applicable Canadian securities laws as well as with Rule 10b5-1(c)(1)(i)(B) under the Exchange Act. In general, such plans must be entered into at a time when the person entering into the plan is not aware of any material non-public information.

Elements of Compensation Program

The following presents in greater detail the Company's compensation components and illustrates its application for the most recently completed financial year.

Base salaries

Base salaries of the Named Executive Officers are determined annually by the HRCC. When determining base salary each year, the HRCC takes the following factors into account: each executive's experience and individual performance, the Company's performance as a whole, cost of living adjustments and other industry conditions, but does not assign any specific weighting to any factor. As a guideline, the HRCC targets the salary component of the compensation program at the median of our comparator group.

For the fiscal year ended January 28, 2017, the HRCC approved base salary increases varying from 0% to 12% for the Named Executive Officers, for an average increase of 3.4%.

Name	Salary as at January 28, 2017 (\$)	Increase during last fiscal year (%)	Currency
Sylvain Toutant	392,000	1.8%	CDN
Luis Borgen	355,000	1.4%	USD
Christine Bullen	310,000	0.0%	USD
Edmund Noonan III	258,000	2.0%	USD
Isabelle Grisé	280,000	12.0%	CDN

Short-Term Incentive Plan

The annual incentive program is a cash bonus intended to compensate officers for achieving short-term corporate goals. It is also intended to reward the named executive officers for both the overall performance of the Company and individual performance during the year. The Company believes that establishing cash bonus opportunities is an important factor in both attracting and retaining the services of qualified and highly skilled executives. As DAVIDsTEA is an organization still in its early stages, it is very important for the Company to roll-out its strategy and reap the benefits of its growth. As such, the HRCC determined that the most meaningful measure of successful growth was Adjusted EBITDA and reviews annually the weight attributed to each financial objective. Therefore, for fiscal 2016, the formula attributed 75% to corporate Adjusted EBITDA and 25% to other profit-base financial objectives. Notwithstanding the above formula, the HRCC may, in its sole discretion, adjust the calculated payment, as much as to cancel payment altogether, should it determine that the calculated payment requires adjustment.

For the fiscal year ended January 28, 2017 the Company did not meet the annual incentive program targets. As such no payment

was made to the Named Executive Officers under the Short-Term Incentive Plan.

(expressed as a percentage of base salary)

Name	Target Bonus (%)	Maximum Bonus (%)	Corporate Performance Factor (%)	Actual Payout (%)
Sylvain Toutant	75%	150%	0.0%	0%
Luis Borgen	40%	80%		0%
Christine Bullen	30%	60%		0%
Edmund Noonan III	30%	60%		0%
Isabelle Grisé	30%	60%		0%

Mid- and Long-Term Incentive Plans

In 2015, the Board and the shareholders of the Company adopted the 2015 Omnibus Equity Incentive Plan (the “2015 Omnibus Plan”) in connection with our IPO. Following its adoption by the Board on March 31, 2015, all equity and equity-based awards, including awards to the named executive officers, are made under the 2015 Omnibus Plan. Accordingly, the restricted stock unit and option awards made in Fiscal 2016 to executive officers were all made under the 2015 Omnibus Plan. As our common shares are currently traded solely on the NASDAQ Global Market, the grant value and number of units awarded are determined based on the U.S. dollar share price and are not subject to currency conversion.

Prior to the IPO, executive officers participated in the amended and restated equity incentive plan (the “Equity Plan”). As such, during the fiscal year ended January 28, 2017, the annual stock option grants were made under the 2015 Omnibus Plan.

The target award values for the named executive officers are indicated in the table below. Actual Fiscal 2016 awards can be found in the summary compensation table set out below. Under the 2015 Omnibus Plan, when calculating the number of stock options and/or restricted share units/performance share units granted based on the target award values, the Company does not convert for U.S.-Canadian currency rates.

(expressed as a percentage of base salary)

Name	Target Value (%)	Maximum Value (%)
Sylvain Toutant	100%	150%
Luis Borgen	40%	60%
Christine Bullen	35%	50%
Edmund Noonan III	35%	50%
Isabelle Grisé	35%	50%

Fiscal 2016 Stock Options

Stock option awards serve to align the interests of the named executive officers with the interests of the shareholders because no value is created unless the value of the common shares appreciates after the grant. Stock options also encourage retention through the use of time-based vesting, as vesting is generally subject to the executive’s continued employment. Stock options may also build share ownership among our named executive officers if the executive retains the shares following exercise. Stock options are granted at an exercise price equal to the closing price of our common shares on the NASDAQ Global Market on the day of the grant. Stock options are generally granted with a seven-year term and vest in equal instalments over four years.

Fiscal 2016 Restricted Stock Units

Restricted stock units serve to align the interests of the named executive officers with the interests of the shareholders as their value is tied to the price of our common shares. Restricted stock units with a multi-year vesting schedule also promote employee retention and, therefore, are a valuable tool in assisting the Company roll out its strategy in the longer term. The number of units granted is calculated by dividing the value of the award by closing price of a share of our common stock on the NASDAQ Global Market. Restricted stock units generally vest as to 25% of the units on the first and second anniversaries and 50% of the units on the third anniversary. Restricted stock units may be settled at the HRCC’s discretion in shares of our common stock, cash or in a combination of both shares and cash.

Benefits

We provide modest benefits to the named executive officers, which are limited to participation in the basic health and welfare

plans. These benefits are available to all salaried employees of the Company.

Perquisites

All the named executive officers are eligible to a discount on DAVIDsTEA products, which discount is offered to all of the regular employees. In addition, the Company pays annual professional association fees and provides life insurance to certain of our named executive officers.

Retirement Plans

We do not maintain any qualified or non-qualified defined benefit plans or supplemental executive retirement plans that cover the named executive officers. In addition, the executives do not participate in a defined contribution pension plan, a collective RRSP or a 401K in the U.S., to which the Company contributes.

Summary Compensation Table

The following table illustrates the compensation paid to the named executive officers for the last three completed fiscal years, as applicable. All compensation is disclosed in U.S. dollars. For employees who receive all or a portion of their compensation in Canadian dollars, unless otherwise indicated, an exchange of 1.3108 for 2016, 1.4074 for 2015, and 1.2716 for 2014 has been used to convert to U.S. dollars, which represents the exchange rate of the U.S. Federal Reserve Bank of New York at noon on the last day of each fiscal year, and which, in the Company's opinion, is an appropriate reflection of exchange rates variation during the year.

Name and principal position	Year	Salary ⁽⁵⁾ (\$)	Stock Awards ⁽⁶⁾ (\$)	Option Awards ⁽⁷⁾ (\$)	Non-equity incentive plan compensation ⁽⁸⁾		All other compensation ⁽⁹⁾ (\$)	Total Compensation (\$)
					Annual incentive plan ⁽⁸⁾ (\$)	Long-term incentive plan (\$)		
Sylvain Toutant⁽¹⁾	2016	299,054	244,960	121,438	—	—	—	665,452
President and Chief	2015	273,554	376,960	—	288,258	—	—	938,772
Executive Officer	2014	198,494	—	992,147	235,923	—	—	1,426,564
Luis Borgen	2016	355,000	79,897	39,590	—	—	—	474,487
Chief Financial	2015	350,000	138,245	—	196,700	—	—	684,945
Officer	2014	344,451	—	35,600	220,449	—	7,790	608,290
Christine Bullen⁽²⁾	2016	214,615	232,495	109,684	—	—	—	556,794
Managing Director	2015	—	—	—	—	—	—	—
U.S.	2014	—	—	—	—	—	—	—
Edmund Noonan III⁽³⁾	2016	258,000	51,586	25,588	—	—	—	335,174
Head of Global Real	2015	253,000	58,674	—	106,640	—	—	418,314
Estate and Store Development	2014	78,846	—	66,000	33,333	—	30,000	208,179
Isabelle Grisé⁽⁴⁾	2016	209,502	70,049	34,705	—	—	229,390	543,646
Chief Merchandising	2015	68,320	52,863	—	31,197	—	—	152,380
and Marketing Officer	2014	—	—	—	—	—	—	—

Notes:

- (1) Mr. Toutant joined the Company as President and Chief Executive Officer on June 2, 2014. Accordingly, the amounts reported in the table for 2014 reflect compensation earned by or paid to Mr. Toutant for such year from such date. Mr. Toutant ceased to act as the President and CEO of the Company effective January 29, 2017.
- (2) Mrs. Bullen joined the Company as the Managing Director, USA, on May 24, 2016. Accordingly, the amounts reported in the table for 2016 reflect compensation earned by or paid to Mrs. Bullen for such year from such date. Mrs. Bullen was appointed interim President and CEO effective upon Mr. Toutant's departure on January 28, 2017.
- (3) Mr. Noonan joined the Company as Head of Global Real Estate and Store Development on October 13, 2014. Accordingly, the amounts reported in the table for 2014 reflect compensation earned by or paid to Mr. Noonan for such year from such date.
- (4) Mrs. Grisé joined the Company as the Chief Merchandising and Marketing Officer on September 9, 2015, a position she occupied until her departure effective January 19, 2017.
- (5) Mr. Toutant and Mrs. Grisé were paid in Canadian dollars (their base salaries in effect as of January 31, 2016 were respectively C\$392,000 and C\$274,615). Mr. Borgen received a portion of his base salary and annual bonus in Canadian dollars. His base salary in effect as of January 31, 2016 was US\$355,000.
- (6) Amounts shown reflect the aggregate grant date fair market value of time-vesting restricted stock units granted to all Named Executive Officers on April 15, 2016 (except for Mrs. Bullen whose grant was made on May 24, 2016 upon her start date), under the 2015 Omnibus Plan, excluding the value of estimated forfeitures on the shares. Assumptions used in the calculation of these amounts are disclosed in note 17 to the Company's Consolidated Financial Statements for the year ended January 28, 2017.
- (7) Amounts shown reflect the aggregate grant date fair value of time-vesting stock options, using a Black-Scholes option pricing model, and exclude the value of estimated forfeitures. Assumptions used in the calculation of these amounts are included below for grants received by the named executive officers over the last three fiscal years and have been adjusted to reflect the May 12, 2015 1 for 1.6 stock split on the Shares. Prior to the IPO, the fair

market value of stock options was determined by an independent third party. The stock option value used for accounting and financial statement purposes is equal to the above-disclosed compensation value.

	2016-03-30	2015-01-14	2014-10-09	2014-07-25	2014-06-02	2013-08-12	2012-04-19
Exercise price (\$ CDN)	11.99\$ USD	4.30	4.31	4.25	4.25	3.33	0.77
Term (years)	7.0	3.65	7.0	7.0	7.0	7.0	7.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Risk-free interest rate (%)	1.23	1.15	1.52	1.52	1.52	2.03	1.44
Volatility (%)	29.8%	30.6%	39.0%	39.0%	39.0%	45.0%	45.0%
Fair market value (\$ CDN)	2.84\$ USD	1.06	1.84	1.85	1.85	1.63	0.37
Exchange rate	-	1.1932	1.1149	1.0814	1.0895	1.0297	1.0224
Fair market value (\$ USD)	2.84\$ USD	0.89	1.65	1.71	1.70	1.58	0.36

(8) Represents the awards earned during the year under the Short-Term Annual Incentive Program.

(9) The amounts shown represent signing bonuses that were made upon the hire of Mr. Noonan of US\$30,000. Also included are Company-paid life insurance premiums for Messrs. Borgen and Noonan, and payments made to Mrs. Grisé in connection with her departure.

Incentive Plan Awards

Outstanding share-based awards and option-based awards

The following table sets forth information regarding outstanding awards held by the named executive officers as of January 28, 2017. All outstanding stock options and restricted stock units were adjusted to reflect the May 12, 2015 stock split of 1.6-for-1 on the Common Shares.

Name	Option Awards					Share Awards		
	Grant date	Number of securities underlying unexercised options - exercisable ⁽¹⁾ (#)	Number of securities underlying unexercised options - unexercisable (#)	Option exercise price ⁽²⁾ (\$)	Option expiration date ⁽³⁾	Grant date	Number of shares or units of stock that have not vested ⁽⁴⁾ (#)	Market value of shares or units of stock that have not vested ⁽⁵⁾ (\$)
Sylvain Toutant	2016-04-15	42,760	-	11.19	2017-07-27		-	-
President and Chief Executive Officer	2014-06-02	334,773	-	3.24	2017-07-27		-	-
		377,533						
Luis Borgen	2016-04-15	-	13,940	11.19	2023-04-15	2016-04-15	7,140	47,481
Chief Financial Officer	2015-01-14	-	20,000	3.28	2022-01-14	2015-03-31	20,640	137,256
			33,940				27,780	184,737
Christine Bullen	2016-05-24	-	38,621	11.76	2023-05-24	2016-05-24	19,770	131,471
Managing Director U.S.								
Edmund Noonan III	2016-04-15	-	9,010	11.19	2023-04-15	2016-04-15	4,610	30,657
Head of Global Real Estate and Store Development	2014-10-09	20,000	20,000	3.29	2021-10-09	2015-03-31	8,760	58,254
			29,010				13,370	88,911
Isabelle Grisé	2015-09-09	5,250	-	12.99	2018-01-19		-	-
Chief Merchandising and Marketing Officer							-	-

Notes:

- (1) Unless earlier terminated, forfeited, relinquished or expired, the options will vest as to 1/4th of the Shares on each of the first four anniversaries of the grant date and the option becoming vested as to 100% of the Shares on the final vesting date. Shares subject to the option will not vest on any vesting date unless the NEO has remained in continuous service from the date of grant through such vesting date, unless otherwise provided in the LTIP plan further discussed in Item 11 – Executive Compensation.
- (2) For option awards granted after the IPO, the exercise price is equal to the closing price on the NASDAQ on the day of the award. For option awards granted prior to the IPO, the exercise price was determined by our Board based on an independent third party valuation and was denominated in Canadian dollars. As our shares are currently traded only on the NASDAQ in USD, the exercise prices of the pre-IPO awards have been converted to U.S. dollars based on the U.S. dollar/Canadian dollar exchange rate in effect as of January 27, 2017, the last business day of this fiscal year of C\$1 = US\$1.3108. The actual exchange rate in effect at the time of exercise for options granted with a Canadian dollar exercise price will be used to convert the option exercise price to U.S. dollars.
- (3) All stock options have a seven-year term.
- (4) Unless earlier terminated, forfeited, relinquished or expired, the RSUs will vest as to one quarter of the shares on each of the first two anniversaries of the grant date and remaining half of the RSUs will vest on the third anniversary of the grant date. Shares subject to the RSUs will not vest on any vesting date unless the NEO has remained in continuous service from the date of grant through such vesting date, unless otherwise provided in the LTIP plan further discussed in Item 11 – Executive Compensation.
- (5) The market value is calculated by multiplying the closing price of the Shares on the NASDAQ on January 27, 2017, being the last business day of the fiscal year, which closing price was US\$6.65 per Share, by the number of restricted stock units that had not vested as of such date.

Value vested or earned during the year

The following table sets forth information regarding option-based awards and share-based awards that vested in the fiscal year ended January 28, 2017 for the Named Executive Officers.

Name	Option-based awards - Value vested during the year ⁽¹⁾ (US\$)	Share-based awards - Value vested during the year ⁽²⁾ (\$)	Non-equity incentive plan compensation - Value earned during the year ⁽³⁾ (\$)
Sylvain Toutant	1,806,341	548,121	—
Luis Borgen	236,550	83,317	—
Christine Bullen	—	—	—
Edmund Noonan III	93,400	35,361	—
Isabelle Grisé	—	62,642	—

Notes:

- (1) For option awards granted after the initial public offering, the exercise price is equal to the closing price on the NASDAQ on the day of the award. For option awards granted prior to the IPO, the exercise price was determined by our Board based on an independent third party valuation and was denominated in Canadian dollars. As the Shares are traded on the NASDAQ only, the exercise prices of the pre-IPO awards have been converted to USD based on U.S. Federal Reserve Bank of New York at noon on January 27, 2017, the last business day of this fiscal year, being \$1.3108. The actual exchange rate in effect at the time of exercise for options granted with a Canadian dollar exercise price will be used to convert the option exercise price to US dollars.
- (2) The value is calculated by multiplying the number of RSUs vested by the closing Share price on the NASDAQ on the vesting date.
- (3) The aggregate value of unexercised in-the-money options is equal to the difference between the exercise price of options that have not been exercised on January 28, 2017 and the closing price of the Shares on the NASDAQ on such date, being the last business day of the fiscal year, which closing price was \$6.65USD per Share. Actual gains, if any, on exercise, will depend on the value of the Shares on the date of exercise. There is no guarantee that gains will be realized. The market value is calculated by multiplying the closing market price of a share of our common stock on January 27, 2017, being the last trading day of this fiscal year, (\$6.65USD) by the number of options that had not vested as of such date.

Equity Compensation Plan Information

The table below illustrates the status of the shares reserved for issuance under the Company's equity-based incentive plans.

Plan Category	Plan Name	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽²⁾ (#) (a)	Weighted average exercise price of outstanding options warrants and rights ⁽³⁾ (\$USD) (b)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) (c)
Equity compensation plans approved by security holders	Amended and Restated Equity Incentive Plan ⁽¹⁾	769,404	2.81	—
	2015 Omnibus Equity Incentive Plan	416,025	11.27	1,023,975
Equity compensation plans not approved by security holders	N/A	—	—	—
Total		1,185,429		1,023,975

- (1) As of the adoption of the 2015 Omnibus Plan in connection with the IPO, no awards have been or will be made under the Equity Plan. Outstanding options previously granted under the Equity Plan remain subject to the terms of the Equity Plan.
- (2) Reflects outstanding stock options and restricted stock units.
- (3) Restricted stock units have no exercise price and, therefore, the weighted average price does not take these awards into account.
- (4) The weighted average exercise price of outstanding options have been converted from CAD to USD at an exchange rate of 1.3108.

Termination and change in control benefits

The Named Executive Officers would be entitled to the following payments and benefits in the event of termination of the executive's employment pursuant to the employment agreement between the executive and the Company.

Mr. Luis Borgen

On December 7, 2016, the Company entered into an agreement which modified, in part, Mr. Luis Borgen's existing equity and employment agreements with the Company. The agreement provides for a term of employment until July 31, 2017, at which

point (or earlier if he is terminated without cause or if he leaves the Company for good reason, as such terms are defined in the employment agreement). Mr. Borgen will be entitled to receive the severance benefits under his existing employment agreement, as described below, as well as acceleration of his options and restricted stock units. Additionally, on April 18, 2017, Mr. Borgen will receive a new equity grant comprised of a number of restricted stock units equal to US\$88,750 divided by the closing price of our common shares on the date of the grant and options to purchase a number of shares equal to US\$88,750 divided by the fair market value of a share of the Company's common stock on the date of the grant. In the event Mr. Borgen's employment terminates following July 31, 2017, all of the unvested awards will become fully vested as of the termination date. In the event a change of control were to occur prior to April 18, 2017, Mr. Borgen would receive a cash in lieu of these equity awards. Under the amended and restated employment agreement entered into in March 2015 with Mr. Borgen, if Mr. Borgen's employment is terminated by the Company without cause or by him for good reason (as each term is defined in the employment agreement), he will be entitled to continued payment of his base salary for a period of 12 months following such termination, payment of premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for 12 months, an amount equal to the average annual cash bonus paid to him for the two years preceding such termination and a *pro rata* portion of his target annual cash bonus for the year in which the termination occurs. The value of such salary continuance was estimated at US\$580,548 had termination of employment happened on January 28, 2017. Following a change in control of the Company, the severance payments described in the preceding sentence will be paid in a single lump sum within 75 days following the termination of employment instead of in installments and all outstanding equity awards then held by Mr. Borgen will become fully vested, and exercisable or payable, as the case may be (an additional value of US\$252,137 calculated using the closing price of our common shares on the NASDAQ Global Market of US\$6.65 as of January 28, 2017).

If Mr. Borgen's employment is terminated by the Company for cause or by Mr. Borgen without good reason (as each term is defined in the employment agreement), Mr. Borgen will be entitled to receive earned but unpaid base salary, any earned but unpaid annual bonus for the year preceding the year in which such termination occurs, unreimbursed business expenses, and an amount payable for unused vacation days (together, the Unpaid Base Compensation).

The Company's obligation to provide Mr. Borgen with any severance payments or other benefits under his employment agreement other than his Unpaid Base Compensation is conditioned on Mr. Borgen signing a release of claims in our favor and his continued compliance with covenants relating to confidentiality, assignment of inventions, non-solicitation and non-competition.

Mrs. Christine Bullen

In May 2016, the Company entered into an employment agreement with Mrs. Bullen. Pursuant to her employment agreement, if Mrs. Bullen's employment is terminated by the Company without cause, she will be entitled to a severance payment equal to six months of base salary, an amount equal to 6/12ths of the average annual cash performance bonus paid to her for the two years immediately preceding the date of such termination of employment, and a *pro rata* portion of her annual cash bonus for the year in which the termination occurs paid at expected actual payout level. The value of such salary continuance was estimated at US\$155,000 had termination of employment happened on January 28, 2017. If such termination occurs within 18 months following a change in control of the Company, the severance payments described in the preceding sentence will be paid in a single lump sum within 75 days following the termination of employment instead of in installments and all outstanding equity awards then held by Mrs. Bullen will become fully vested, and exercisable or payable, as the case may be (an additional value of US\$131,470 calculated using the closing price of our common shares on the NASDAQ Global Market of US\$6.65 as of January 28, 2017).

Mr. Edmund Noonan III

In September 2014, the Company entered into an employment agreement with Mr. Noonan, the Head of Global Real Estate and Store Development of the Company. Pursuant to his employment agreement, if Mr. Noonan's employment is terminated by the Company without cause, he will be entitled to a severance equivalent to 6 months of base salary and a *pro rata* portion of his annual cash bonus for the year in which the termination occurs paid at expected actual payout level. The value of such salary continuance was estimated at \$126,500 had termination of employment happened on January 28, 2017. There is no specific change in control provision agreed upon between the Company and Mr. Noonan in his employment agreement.

Voluntary Resignation

Unvested options granted under the Equity Incentive Plan will be forfeited upon a termination of employment due to a voluntary resignation and vested options will remain exercisable for a period of 30 days following such termination. Under the 2015 Omnibus Plan, vested options will remain exercisable until the earlier of the one-year anniversary of the termination of employment or the award's normal expiration date. Unvested awards under the 2015 Omnibus Plan will be forfeited at the time of such termination.

Termination for Cause

Vested and unvested awards under both the Equity Incentive Plan and the 2015 Omnibus Plan will be forfeited immediately at time of termination.

Termination Due to Death

Unvested options granted under the Equity Incentive Plan will be forfeited upon death while vested options will remain exercisable by the estate for a period of 180 days following death. Under the 2015 Omnibus Plan, upon death, all time-based awards will immediately vest and performance awards will vest at the target level of performance. Options will remain exercisable until the earlier of the one-year anniversary of the executive's death or the award's normal expiration date.

Termination Due to Disability

Unvested options granted under the Equity Incentive Plan will be forfeited upon termination of employment while vested options will remain exercisable for a period of 180 days following termination. Under the 2015 Omnibus Plan, upon a termination of employment due to disability, all time-based awards will immediately vest and performance awards will remain eligible to vest to the extent the applicable performance goals are achieved. Options will remain exercisable until the earlier of the one-year anniversary of the participant's termination of employment due to disability or the award's normal expiration date.

Retirement

Unvested options granted under the Equity Incentive Plan will be forfeited upon retirement while vested options will remain exercisable for a period of 90 days. Awards other than stock options made under the 2015 Omnibus Plan will vest based on a *pro rata* of elapsed days between the start of the performance period and the complete 3-year period. If a performance condition is attached to the vesting, the outstanding awards will be treated as per the achievement of the performance criterion at the time of retirement. Vested options will remain exercisable for a period of 5 years following retirement or until the original option expiry date. For purposes of the plan, retirement is defined as 65 years of age and 55 years of age with 10 years of service or more.

Involuntary Termination

Unvested options granted under the Equity Incentive Plan will be forfeited upon an involuntary termination of employment by the Company while vested options will remain exercisable for a period of 30 days. Under the 2015 Omnibus Plan, upon an involuntary termination of employment by the Company, options will be forfeited to the extent then unvested and vested options will remain exercisable until the earlier of the one-year anniversary of the participant's termination of service or the award's normal expiration date. RSUs and performance awards will be deemed vested *pro rata* based on the number of days in a specified period (i.e. the period from the date of grant to the third anniversary of the grant date) that have elapsed from the date of grant to the six-month anniversary of the date of the termination of employment, with the vesting of performance awards to be subject to performance assessed as of the date of such termination of employment.

Change in Control

Under the Equity Incentive Plan, upon the occurrence of a trigger event (as defined in the Equity Plan, generally a liquidation or change of control), participants holding vested options or options that would vest upon the completion of the trigger event will have the right to exercise such options on a basis that allows the participants to tender the common shares delivered upon such exercise in the transaction and any options not so exercised will expire and be cancelled upon the completion of the trigger event. In the event of a trigger event in which the purchase price in the transaction will be paid in cash, in lieu of a participant exercising his or her vested options prior to the trigger event, the participant may require us to purchase his or her options for a purchase price per common share equal to the purchase price per common share in the transaction times the number of common shares subject to the option, minus the aggregate exercise price for such common shares, subject to the completion of the trigger event.

Under the 2015 Omnibus Plan, upon a termination by the Company other than for Cause within 12 months following a change in control, to the extent granted prior to the time of the change in control and then outstanding, all time-based awards will vest and performance awards will vest at the target level of performance. Options will remain exercisable until the earlier of the one-year anniversary of the participant's termination of employment or service due to disability or the award's normal expiration date.

Director Compensation

Compensation of Directors

In connection with the Company's listing on the NASDAQ, the Board adopted a non-employee director compensation policy. On February 15, 2017, the Board approved amendments to come into effect on June 8, 2017. The policy is designed to enable the Company to attract and retain highly qualified non-employee directors. Under the policy effective on January 28, 2017, all non-employee directors received the cash and equity compensation set forth below.

Effective as of January 28, 2017

Board Chair	
Annual retainer	C\$100,000
Annual target equity grant	US\$85,000
Board member	
Annual retainer	C\$50,000
Annual target equity grant	US\$85,000
Board meeting fees	C\$1,000 (C\$500 for teleconference) payable only after the fourth Board meeting in a year
Audit Committee Chair	
Additional annual retainer	C\$15,000 minimum
Audit Committee meeting fees	C\$1,000 (C\$500 for teleconference)
Human Resources and Compensation Committee Chair	
Additional annual retainer	C\$10,000 minimum
Human Resources and Compensation Committee meeting fees	C\$1,000 (\$500 for teleconference)
Corporate Governance and Nominating Committee meeting fees	C\$1,000 (\$500 for teleconference)

Effective on June 8, 2017

Board Chair	
Annual retainer	C\$100,000
Annual target equity grant	15,000 RSUs or DSUs, at the option of the Director
Board member	
Annual retainer	C\$50,000
Annual target equity grant	7,500 RSUs or DSUs, at the option of the Director
Board meeting fees	C\$500 for teleconference meetings only and payable after the fourth Board meeting in a year
Audit Committee Chair	
Additional annual retainer	C\$15,000 minimum
Audit Committee meeting fees	None
Human Resources and Compensation Committee Chair	
Additional annual retainer	C\$10,000 minimum
Human Resources and Compensation Committee meeting fees	None
Corporate Governance and Nominating Committee meeting fees	None

Under our non-employee director compensation policy in effect on January 28, 2017, annual retainers and meeting fees are paid in quarterly cash payments. Equity grants generally will be made in the form of restricted stock units or deferred share units granted under the 2015 Omnibus Plan and will generally vest in full on the first anniversary of the grant date. Equity awards under the non-employee director compensation policy will be made at a date following the Company's annual Meeting of Shareholders.

The following table sets forth information concerning the compensation earned by our non-employee directors during the fiscal year ending January 28, 2017. Mr. Toutant received no additional compensation for services as director and, consequently, is not

included in this table. The compensation received by Mr. Toutant as our former President and CEO can be found in the Summary Compensation Table above.

Director Compensation Table

The following table sets forth information concerning all amounts of compensation provided to the directors of the Company who are not members of the management of the Company for the fiscal year ended January 28, 2017.

Name	Fees earned of paid in cash ⁽¹³⁾ (\$)	Stock awards ⁽¹⁴⁾ (\$)	Option awards (\$)	Non-equity incentive compensation plan (\$)	Change in pension value and non-qualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Emilia Di Raddo ⁽¹⁾	31,660	85,000	—	—	—	—	116,660
Tom Folliard ⁽²⁾	38,038	85,000	—	—	—	—	123,038
Bruce Guerriero ⁽³⁾	18,644	—	—	—	—	—	18,644
Michael J Mardy ⁽⁴⁾	20,854	85,000	—	—	—	—	105,854
David W. McCreight	34,513	85,000	—	—	—	—	119,513
Pierre Michaud ⁽⁵⁾	30,007	—	—	—	—	—	30,007
Lorenzo Salvaggio ⁽⁶⁾	33,567	85,000	—	—	—	—	118,567
Guy Savard ⁽⁷⁾	14,590	—	—	—	—	—	14,590
Herschel Segal ⁽⁸⁾	33,567	85,000	—	—	—	—	118,567
Sarah Segal ⁽⁹⁾	30,987	85,000	—	—	—	—	115,987
Kathleen C. Tierney ⁽¹⁰⁾	16,762	85,000	—	—	—	—	101,762
Maurice Tousson ⁽¹¹⁾	71,394	255,000	—	—	—	—	326,394

Notes:

- (1) Mrs. Di Raddo ceased to be a member of the Audit Committee effective April 5, 2016 and became a member of the Human Resources and Compensation Committee effective June 9, 2016.
- (2) Mr. Folliard ceased to be a member of the HRCC effective June 9, 2016 and became the Chair and a member of the Corporate Governance and Nominating Committee on the same date.
- (3) Mr. Guerriero did not stand for reelection and, as such, he ceased to be a director and the Chair of the Audit committee effective June 9, 2016, following the election of the new Board members at the Annual Shareholders' meeting held on such date.
- (4) Mr. Mardy was elected as a director of the Board on June 9, 2016 and was appointed a member and Chair of the Governance and Nominating committee effective June 9, 2016.
- (5) Mr. Michaud did not stand for reelection and, as such, he ceased to be a director and the Chairman of the Board effective June 9, 2016, following the election of the new Board members at the Annual Shareholders' meeting held on such date.
- (6) Mr. Salvaggio became a member of the Human Resources and Compensation Committee on June 9, 2016.
- (7) Mr. Savard did not stand for reelection and, as such, he ceased to be a director and a member of the Audit committee effective June 9, 2016, following the election of the new Board members at the Annual Shareholders' meeting held on such date.
- (8) Mr. Segal ceased to be a member of the Human Resources and Compensation Committee on June 9, 2016 and he became a member of the Corporate Governance and Nominating Committee on such date.
- (9) Ms. Segal became a member of the Corporate Governance and Nominating Committee on June 9, 2016.
- (10) Mrs. Tierney was elected as a director of the Board on June 9, 2016 and was appointed a member of the Human Resources and Compensation Committee effective on June 9, 2016.
- (11) Mr. Tousson was elected as a director of the Board on June 9, 2016 and was then appointed Chairman and Chair of the Human Resources and Compensation Committee and a member of the Audit committee, effective June 9, 2016. The fees and share-based awards for Mr. Tousson include special equity grants approved by the Board in acknowledgement of Mr. Tousson's additional responsibilities in his role as Chairman of the Board mainly with regards to the transition period related to the departure of Mr. Toutant and the appointment of the new President and CEO.
- (12) Director fees were paid in cash in Canadian dollars except for Mrs. Tierney and Messrs. Folliard, Mardy and McCreight, who are all US residents. Their respective compensation was converted to U.S. dollars at the time of payment using the noon exchange rate from the U.S. Federal Reserve Bank of New York of on such date.
- (13) Stock awards are made based on the closing price of the shares on the NASDAQ on the grant date which price is in US dollars. For the Board members receiving their compensation in Canadian dollars, the fair market value of stock awards was converted to Canadian dollars using the noon exchange rate from the U.S. Federal Reserve Bank of New York of on such date.

The directors are reimbursed by the Company for the reasonable costs and expenses incurred in connection with attending meetings of the Board of Directors and its committees including, to the extent applicable, the cost of travel on commercial or leased aircraft.

Outstanding option-based awards for directors

In fiscal years prior to fiscal 2016, some of the Company's directors were granted options to buy Common Shares in exchange for their service on the Board of Directors. As of the end of the fiscal year ended January 28, 2017, these options are still outstanding and presented in the table below.

Name	Option-based Awards ⁽¹⁾			
	Number of securities underlying unexercised options (#)	Option exercise price ⁽²⁾ (C\$)	Option expiration date ⁽³⁾	Value of unexercised in-the-money options ⁽⁴⁾ (US\$)
Emilia Di Raddo	48,635	3.33	2021-03-03	199,890
Tom Folliard	48,635	3.33	2021-03-03	199,890
David W. McCreight	49,761	4.31	2021-12-02	167,197

Notes:

- (1) Mmes. Tierney and Segal, Messrs. Mardy, Salvaggio, Segal and Tousson have not been granted stock options and therefore are not represented in this table.
- (2) The exercise price is denominated in Canadian dollars as the options were awarded prior to the IPO. Upon exercise of the options, the exercise price will be converted to USD.
- (3) All stock options have a seven-year (7) term and generally vest in 36 monthly instalments.
- (4) The aggregate dollar value of the in-the-money unexercised options is the positive difference between the exercise price and the closing price of the Shares on the NASDAQ on January 27, 2017, the last business day of the fiscal year, which closing price was \$6.65USD per Share. Actual gains, if any, on exercise day will depend on the value of the Shares on the date of exercise. There is no guarantee that gains will be realized.
- (5) Messrs. Michaud and Savard ceased to be directors of the Company on June 9, 2016 and, therefore, no options remain outstanding.

Value vested or earned during the year for directors

The following table sets forth information regarding option-based awards and share-based awards the vesting in the fiscal year ended January 28, 2017 for our directors.

Name	Option-based awards - Value vested during the year ⁽¹⁾⁽²⁾ (US\$)	Share-based awards - Value vested during the year (\$) (US\$)	Non-equity incentive plan compensation - Value earned during the year (\$) (US\$)
Emilia Di Raddo	140,754	—	—
Tom Folliard	140,754	—	—
David W. McCreight	131,633	—	—
Pierre Michaud	116,612	—	—
Guy Savard	278,295	—	—

Notes:

- (1) Mmes. Tierney and Segal and well as Messrs. Mardy, Salvaggio, Segal and Tousson have not been granted stock options and therefore are not represented in this table.
- (2) The value is calculated as if the stock options were exercised on the vesting date of each relevant grant. The value represents the difference between the option's exercise price and the closing share price on the NASDAQ on the vesting date, multiplied by the number of shares underlying the options that vested. As the Shares are traded only on the NASDAQ in US dollars, the exercise prices of the pre-IPO awards have been converted to USD based on the noon buying rate of the U.S. Federal Reserve Bank of New York on January 27, 2017, the last business day of this fiscal year, being \$1.3108. For vesting dates prior to the IPO, the quarterly share valuation, as determined by our Board based in part on an independent third party valuation, was used. The actual value earned, if any, will be different and will be based on the closing price of the Shares on the actual date of exercise.

Indebtedness of Directors and Officers

As of April 11, 2017, no executive officer, director, proposed nominee for election as a director or employee, former or present, of the Company was indebted to the Company including in respect of indebtedness to others where the indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement provided by the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table shows, as of April 11, 2017, the number of common shares beneficially owned by each director, director nominee and executive officer named in the Summary Compensation Table in Item 11 and all directors, director nominees and executive officers as a group.

The following table and accompanying footnotes set forth information relating to the beneficial ownership of our common shares as of April 11, 2017 by:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our outstanding common shares;
- each of our directors and director nominees;
- each of our named executive officers;
- all directors and executive officers as a group.

Our major shareholders do not have voting rights that are different from our shareholders in general.

Each shareholder's percentage ownership is based on 24,455,510 common shares outstanding as of April 11, 2017.

Beneficial ownership is determined in accordance with SEC rules. In general, under these rules a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares voting power or investment power with respect to such security. A person is also deemed to be a beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within 60 days. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all common shares held by that person. Our common shares that a person has the right to acquire within 60 days of April 11, 2017 are deemed outstanding for purposes of computing the percentage ownership of such person holding, but are not deemed outstanding for purposes of computing the percentage ownership of any other person, except with respect to the percentage ownership of all directors, director nominees and executive officers as a group. As of April 11, 2017, 7,573,907 shares were owned by 4 United States holders of record.

Unless otherwise indicated below, the address for each beneficial owner listed is c/o DAVIDsTEA Inc., 5430 Ferrier, Mount-Royal, Québec, Canada, H4P 1M2.

Transfer Agent and Registrar

The Company's transfer agent and registrar is CST Trust Company, Montréal.

Name of beneficial owner	Shares Beneficially Owned as at April 11, 2017	
	Number of shares (#)	Percentage of shares (%)
Beneficial Owners of more than 5% of our common shares and/or selling shareholders:		
Rainy Day Investments Ltd. ⁽¹⁾	12,007,238	47.2%
FMR LLC	3,012,028	11.8%
Entities affiliated with Highland Consumer Partners ⁽²⁾	3,304,306	13.0%
TDM Asset Management PTY Ltd.	2,377,058	9.3%
Named Executive Officers, Directors and Director Nominees:		
Joel Silver	-	*
Luis Borgen ⁽³⁾	3,834	*
Christine Bullen	-	*
Isabelle Grisé ⁽⁴⁾	3,549	*
Edmund Noonan III ⁽⁵⁾	22,417	0.1%
Maurice Tousson ⁽⁶⁾	-	*
Emilia Di Raddo ⁽⁷⁾	48,635	0.2%
Tom Folliard ⁽⁸⁾	138,518	0.5%
Tyler Gage	-	*
David W. McCreight ⁽⁹⁾	103,755	0.4%
Gary O'Connor	-	*
Lorenzo Salvaggio ⁽¹⁰⁾	1,295	*
Sylvain Toutant ⁽¹¹⁾	432,407	1.7%
Herschel Segal ⁽¹⁾	12,007,238	47.2%
Sarah Segal	-	*
Michael J. Mardy ⁽¹²⁾	1,000	*
Kathleen C. Tierney	-	*
All executive officers, directors and director nominees as a group ⁽¹³⁾	12,764,348	50.1%

- Notes:
- * represents less than 1%.
- (1) Rainy Day Investments Ltd. ("Rainy Day") is a company controlled by Herschel Segal, who holds voting and investment control over the shares held by Rainy Day. The principal business address for Rainy Day is 5695 Ferrier, Mount Royal, Québec, Canada, H4P 1N1.
- (2) Consists of (i) 2,653,155 common shares held by Highland Consumer Fund I, LP ("Fund I"), (ii) 566,063 common shares held by Highland Consumer Fund I-B, LP ("Fund I-B"), and (iii) 85,088 common shares held by Highland Consumer Entrepreneurs Fund I LP ("Entrepreneurs Fund", and together with Fund I and Fund I-B, the "Highland Entities"). Highland Consumer GP Limited Partnership is the general partner of each of the Highland Entities. Highland Consumer GP GP LLC ("HC GP GP") is the general partner of Highland Consumer GP Limited Partnership. Peter Cornetta is the managing member of HC GP GP and has voting and investment power over the shares held by the Highland Entities. The principal business address for the Highland Entities is One Broadway, 16th Floor, Cambridge, Massachusetts 02142.
- (3) Consists of 3,384 RSUs held by Mr. Borgen.
- (4) Consists of 3,549 RSUs held by Mrs. Grise.
- (5) Consists of 1,864 RSUs and options to purchase 22,253 common shares held by Mr. Noonan.
- (6) Consists of an estimated number of common shares to be held by Mr. Tousson following the full vesting on the grant date of April 18, 2017. The final amount will be determined on the grant date of April 18, 2017 based on a grant value of \$85,000 and which, as of April 11, 2017, represented 11,039 RSUs based on the Share closing price on such date.
- (7) Consists of options to purchase 48,635 common shares held by Mrs. Di Raddo.
- (8) Consists of 89,883 common shares owned by Mr. Folliard through a family trust and options to purchase up to 48,635 common shares held by Mr. Folliard.
- (9) Consists of 53,994 common shares held by Mr. McCreight and options to purchase 49,761 common shares held by Mr. McCreight.
- (10) Consists of 1,295 common shares held by Mr. Salvaggio.
- (11) Consists of 409,532 common shares owned by Mr. Toutant as per the latest information we had available upon his departure effective January 29, 2017.
- (12) Consists of 1,000 common shares owned by Mr. Mardy.
- (13) Includes options to purchase common shares exercisable within 60 days of April 11, 2017.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Our audit committee reviews and approves related party transactions or recommends related party transactions for review by independent members of our Board of Directors. Each of the transactions described below have been reviewed by our audit committee.

Arrangements with Our Investors

We have entered into an amended and restated investors' rights agreement with certain of our shareholders.

Investors' Rights Agreement

In February 2014, in connection with the issuance of our Series A-1 preferred shares, we entered into an amended and restated investors' rights agreement, which was amended in December 2014 in connection with our issuance of our Series A-2 preferred shares. The agreement contains provisions related to registration rights, information and observation rights, rights to future share issuances and approval rights by certain investors and/or their board designees. The information and observation rights, rights to future share issuance and approval rights terminated as a result of our IPO.

Subject to certain conditions, holders of 20% or more of the Investor Registrable Shares or 20% or more of the Rainy Day Registrable Securities (as those terms are defined in the agreement) have the right to demand that we register under the Securities Act or under Canadian securities laws all or a portion of such shareholder or shareholders' Registrable Securities at our expense. Such rights became effective as of April 3, 2015. Upon the exercise of this right, we must give notice to all other parties who then hold registrable securities, as defined in the agreement, to permit them to participate in the offering.

In addition, if we propose to register our common shares under the Securities Act or under any Canadian securities laws, we must give prompt notice to each holder of registrable securities of our intent to do so and each such holder has piggyback registration rights and is entitled to include any part of its registrable securities in such registration, subject to certain conditions.

Finally, if we become eligible to use a shelf registration statement on Form S-3 or Form F-3, holders of registrable securities may demand that we file a Form S-3, F-3 or S-10 registration statement with respect to any or a portion of such holder's registrable securities having an anticipated aggregate offering price, net of all underwriting discounts, selling commissions, share transfer taxes and certain other expenses, of at least \$1 million. Upon receiving notice of such a demand, we must notify all other holders to permit them to exercise piggyback registration rights with respect to such demand.

Director Independence

Five of our ten directors that make up our board of directors are considered independent under Canadian securities laws and the NASDAQ rules. Under these rules, Maurice Tousson, the chairman of our Board of Directors, Tom Folliard, David McCreight as well as Kathleen C. Tierney and Michael J. Mardy, are considered independent, whereas Emilia Di Raddo, Lorenzo Salvaggio, Hershel Segal, Sarah Segal and Joel Silver are not considered to be independent as a result of their respective relationships with the Company or their relationships with other non-independent members of our board of directors. The independence of directors is determined by the Board based on the results of independence questionnaires completed by each director annually, as well as other factual circumstances reviewed on an ongoing basis.

To enhance the independent judgment of the Board of Directors, despite the fact that a majority of our directors are not independent, the independent members of the Board of Directors may meet in the absence of members of management and the non independent directors. An in camera session is now scheduled as part of every meeting of the Board of Directors and its committees to allow independent directors to meet without non-independent directors and members of management, as necessary. All non-independent directors are responsible to the Board of Directors as a whole and have a duty of care to the Company.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees billed to the Company for the fiscal years ended January 28, 2017 and January 30, 2016 by EY:

	For the year ended	
	January 28, 2017	January 30, 2016
Audit fees (1)	369,000	315,000
Audit-related fees (2)	40,000	590,000
Tax fees (3)	19,366	79,885
All other fees (4)	16,250	47,200
	444,616	1,032,085

Notes:

- (1) Audit fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements and review of the interim consolidated financial statements included in our quarterly reports, consultation concerning financial reporting and accounting standards, and services provided in connection with statutory and regulatory filings or engagements, including consent procedures in connection with public filings.
- (2) Audit-related fees consist of fees billed for related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and that are not reported under "Audit Fees", including fees billed in relation to our initial public offering.
- (3) Tax fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance, and transfer pricing studies and advisory services.
- (4) All other fees consist of fees for all other professional services and products rendered by EY, primarily translation services.

All fees paid and payable by the Company to EY in Fiscal 2016 and Fiscal 2015 were pre-approved by the Company's Audit Committee pursuant to the procedures and policies set forth in the Audit Committee mandate. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval. The Chairperson of the Audit Committee is also authorized, pursuant to delegated authority, to pre-approve additional services on a case-by-case basis, and such approvals are communicated to the full Audit Committee at its next meeting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Form 10-K:

(a)(1) Financial Statements

The audited consolidated financial statements of the Company filed as part of this Annual Report on Form 10-K are included in Part II, Item 8, and include:

Report of Independent Registered Public Accounting Firm

As of January 28, 2017 and January 30, 2016:

Consolidated Balance Sheets

For the years ended January 28, 2017, January 30, 2016 and January 31, 2015:

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Consolidated Statements of Cash Flows

Consolidated Statements of Equity

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedule

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

Exhibit Number	Description of Document	Incorporated by Reference (File No. 333-203219, unless otherwise indicated)		
		Form	Filing Date	Exhibit Number
3.1	Form of Amended and Restated Articles of Incorporation of DAVIDsTEA Inc.	F-1/A	5/18/2015	3.1
3.2	Amended and Restated Bylaws of DAVIDsTEA Inc.	F-1	4/2/2015	3.2
10.1	Credit Facility Letter from HSBC Bank Canada to DAVIDsTEA Inc. and DAVIDsTEA (USA) Inc., dated August 19, 2013, as amended	F-1	4/2/2015	10.1
10.2*	Amended and Restated Equity Incentive Plan, as amended	F-1	4/2/2015	10.3
10.3*	Equity Participation Agreement between DAVIDsTEA Inc. and Sylvain Toutant, dated June 2, 2014, as amended	F-1	4/2/2015	10.4
10.4*	Equity Participation Agreement between DAVIDsTEA Inc. and Luis Borgen, dated February 22, 2013	F-1	4/2/2015	10.5
10.6*	Equity Participation Agreement between DAVIDsTEA Inc. and Edmund Noonan, dated October 9, 2014	F-1	4/2/2015	10.8
10.8*	Equity Participation Agreement between DAVIDsTEA Inc. and Emilia Di Raddo, dated March 3, 2014, as amended	F-1	4/2/2015	10.10
10.9*	Equity Participation Agreement between DAVIDsTEA Inc. and Tom Folliard, dated March 3, 2014, as amended	F-1	4/2/2015	10.11
10.10*	Equity Participation Agreement between DAVIDsTEA Inc. and David W. McCreight, dated December 15, 2014	F-1	4/2/2015	10.12
10.11*	Equity Participation Agreement between DAVIDsTEA Inc. and Guy Savard, dated December 15, 2014	F-1	4/2/2015	10.13
10.12*	2015 Omnibus Incentive Plan	F-1	4/2/2015	10.14
10.13*	Form of Nonstatutory Stock Option Award Agreement under 2015 Omnibus Incentive Plan	F-1	4/2/2015	10.15
10.14*	Form of Restricted Stock Unit Award Agreement Under 2015 Omnibus Incentive Plan	F-1	4/2/2015	10.16
10.15*	Form of Indemnification Agreement for Directors and Officers	F-1	4/2/2015	10.17
10.16*	Amended and Restated Employment Agreement between DAVIDsTEA Inc. and Sylvain Toutant, dated March 30, 2015	F-1	4/2/2015	10.18
10.17*	Amended and Restated Employment Agreement between DAVIDsTEA (USA) Inc. and Luis Borgen, dated March 30, 2015	F-1	4/2/2015	10.19
10.18	Amended and Restated Investors' Rights Agreement among DAVIDsTEA Inc. and the Investors named therein, dated February 24, 2014	F-1	4/2/2015	10.37
10.19	Amendment to the Amended and Restated Investors' Rights Agreement among DAVIDsTEA Inc. and the Investors named therein, dated December 15, 2014	F-1	4/2/2015	10.38
10.20	Agreement of Lease between DAVIDsTEA Inc. and S. Rossy Investments Inc., dated July 22, 2013	F-1	4/2/2015	10.14
10.21	Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated April 28, 2010	F-1	4/2/2015	10.42
10.22	First Addendum to Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated January 19, 2011	F-1	4/2/2015	10.43
10.23	Second Addendum to Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated September 2, 2011	F-1	4/2/2015	10.44
10.24	Third Amendment to Lease Agreement between DAVIDsTEA Inc. and Olymbec Development Inc. (f/k/a Olymbec Development (2004) Inc.), dated February 20, 2014	F-1	4/2/2015	10.45
10.25	Month to Month Tenancy Agreement by and between Le Chateau Inc. and DAVIDsTEA Inc., dated February 14, 2011	F-1	4/2/2015	10.46
10.26	License Agreement by and between Le Chateau Inc. and DAVIDsTEA Inc., dated June 18, 2008	F-1	4/2/2015	10.47
10.27	License Agreement Extension by and between Le Chateau Inc. and DAVIDsTEA Inc., dated June 3, 2013	F-1	4/2/2015	10.48

10.28	Agreement of Sublease by and between Le Chateau Inc. and DAVIDsTEA Inc., dated April 26, 2012	F-1	4/2/2015	10.49
10.29	Storage Agreement by and between Le Chateau Inc. and DAVIDsTEA Inc., dated May 28, 2012	F-1	4/2/2015	10.50
10.30	Storage Agreement Extension by and between Le Chateau Inc. and DAVIDsTEA Inc., dated February 14, 2014	F-1	4/2/2015	10.51
10.31*	Short-Term Incentive Plan	F-1	4/2/2015	10.52
10.32*	Equity Participation Agreement between DAVIDsTEA Inc. and Luis Borgen, dated January 14, 2015	F-1	4/2/2015	10.55
10.33	Credit Agreement by and between DAVIDsTEA Inc., Bank of Montreal and BMO Capital Markets, dated April 24, 2015	F-1/A	5/18/2015	10.56
10.34	Employment Agreement between DAVIDsTEA (USA) Inc. and Edmund Noonan III, dated September 10 th , 2014		4/12/2016	10.57
10.36	Employment Agreement between DAVIDsTEA Inc. and Marc McDonald, dated May 26 th , 2015		4/12/2016	10.58
21.1	Subsidiaries of DAVIDsTEA Inc.	F-1	4/2/2015	21.1
10.37	Amendment Agreement regarding Luis Borgen Employment Agreement, dated December 7, 2016		12/8/2016	10.59
10.38	Employment Separation Agreement between DAVIDsTEA Inc. and Isabelle Grisé, dated February 22, 2017		4/13/2017	Filed herewith
10.39	Executive Employment Agreement between DAVIDsTEA (USA) Inc. and Christine Bullen, dated May 24, 2016		4/13/2017	Filed herewith
10.40	Addendum to the Executive Employment Agreement between DAVIDsTEA (USA) Inc. and Christine Bullen, dated February 2, 2017		4/13/2017	Filed herewith
10.41	Employment Agreement by and between DAVIDsTEA Inc. and Joel Silver, dated March 13, 2017		3/13/2017	10.60
10.42	Separation Letter between DAVIDsTEA Inc. and Sylvain Toutant, dated October 20, 2016		4/13/2017	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm		4/12/2017	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		4/12/2017	31.1
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		4/12/2017	31.2
32.1	Certification of Chief Executive Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		4/12/2017	32.1
32.2	Certification of Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to DAVIDsTEA Inc.		4/12/2017	32.2

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: April 12, 2017

By: /s/ Joel Silver

Name: Joel Silver

Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>/s/ Maurice Tousson</u> Name: Maurice Tousson	Chairman of the Board of Directors
<u>/s/ Joel Silver</u> Name: Joel Silver	President, Chief Executive Officer and Director (principal executive officer)
<u>/s/ Luis Borgen</u> Name: Luis Borgen	Chief Financial Officer (principal financial officer)
<u>/s/ Christine Bullen</u> Name: Christine Bullen	Managing Director, USA
<u>/s/ Howard Tafler</u> Name: Howard Tafler	Chief Accounting Officer (principal accounting officer)
<u>/s/ Herschel Segal</u> Name: Herschel Segal	Co-Founder and Director
<u>/s/ Emilia Di Raddo</u> Name: Emilia Di Raddo	Director
<u>/s/ Tom Folliard</u> Name: Tom Folliard	Director
<u>/s/ Michael J. Mardy</u> Name: Michael J. Mardy	Director
<u>/s/ David W. McCreight</u> Name: David W. McCreight	Director
<u>/s/ Lorenzo Salvaggio</u> Name: Lorenzo Salvaggio	Director
<u>/s/ Sarah Segal</u> Name: Sarah Segal	Director
<u>/s/ Kathleen C. Tierney</u> Name: Kathleen C. Tierney	Director

Date: April 12, 2017



Isabelle Grisé

February 22, 2017

Re: Separation Agreement and Release

Dear Ms. Grisé,

This letter (the "Agreement"), when signed by you, represents our agreement regarding your separation from DAVIDsTEA Inc. (the "Company").

1. Separation Date. As we have discussed, your employment with the Company ended January 19th, 2017 (the "Separation Date"). Your pay through the Separation Date (to the extent not previously paid), including pay for any accrued but unused vacation time less all applicable deductions, was deposited into your bank account.

2. Severance Benefits. In return for your acceptance of the terms in this Agreement, and subject to you meeting in full your obligations hereunder, as per your signed employment agreement, the Company will pay you a lump sum amount equal to seven and a half (7,5) months at your regular base salary plus twenty-five thousand dollars (25,000\$), the whole subject to reduction for all appropriate withholdings and deductions and payable within five (5) business days followings the date this Agreement, signed by you, is received by the Company. You agree that you would not otherwise be entitled to the severance benefits described in this paragraph, and understand that you will receive these severance benefits only by signing this Agreement. You also agree that the payments provided under paragraph 1 of this Agreement are in complete satisfaction of any and all compensation and benefits due to you from the Company and that you are owed no other compensation, equity, or benefits of any kind from the Company.

3. Benefits. Your medical and dental health insurance will be maintained until the earlier of (i) seven and a half (7,5) months from the Separation Date or (ii) the date on which you become covered by another employer, and the applicable insurance premium deductions will be withheld from your final pay. All other employee benefits provided by the Company ended as of the Separation Date. The Company is also providing you with a professional career transition program of 6 months to assist you in your job search.

4. Equity Incentive Plan. All awards granted to you will be treated in compliance with the 2015 Omnibus Equity Incentive Plan, namely with Section 11.

5. Release. By signing this Agreement, and in exchange for the severance benefits provided to you under this Agreement, you agree to fully and finally release, waive and settle any and all causes of action, suits, claims, demands, charges, and obligations of any kind relating to your employment by the Company or to the termination of your employment from the Company, including, but not limited to, any claim in contract, tort, or for wages or compensation owed to you as a result of your employment, the wage and hour, wage payment and fair employment practices under applicable legislation, that you may or could have against DAVIDsTEA Inc, and/or any parent, subsidiary or affiliated entity, and/or its and their officers, directors, principals, shareholders, employees, employee benefit plans, agents, attorneys, representatives, successors and assigns, and all others connected with any of them (together, the "Releasees") up until the date that you sign this Agreement. You understand that, to the fullest extent permitted by law, this release includes, without limitation, any claims you may have for unpaid wages, overtime or premium pay, vacation pay or any other compensation of any kind. You further represent that you were afforded all leave to which you may have been entitled by law and that you are not aware of any work-related injury or illness. You recognize that the Company denies that it has any liability or obligation to

you for any legal claims, and that this Agreement has been reached between you and the Company as an amicable resolution of your employment at the Company. Furthermore, you hereby agree to waive your right to recover monetary damages or other individual relief in any charge, complaint or lawsuit filed by you or by anyone else on your behalf.

6. Confidentiality.

(i) You agree that the terms and conditions of this Agreement and the contents of the negotiations and discussions resulting in this Agreement shall be maintained as confidential by you, your agents and representatives, and shall not be disclosed except to your household members and immediate family, or to the extent necessary to obtain tax or financial advice, or to the extent required by federal or state law.

(ii) During the course of your employment with the Company, you have learned of Confidential Information, as defined below, and may have develop Confidential Information on behalf of the Company and its affiliates. You agree that you will not use or disclose to any person (except as required by applicable law any Confidential Information obtained by you incident to your employment or any other association with the Company or any of its affiliates.

(iii) All documents, records and files, in any media of whatever kind and description, relating to the business, present or otherwise, of the Company or any of its affiliates, and any copies, in whole or in part, thereof (the “Documents”), whether or not prepared by you, are the sole and exclusive property of the Company. You agree to safeguard all Documents and acknowledged that you have surrendered to the Company all Documents then in your possession or control. You also acknowledged that you have disclosed to the Company all passwords necessary or desirable to obtain access to, or that would assist in obtaining access to, any information which you have password-protected on any computer equipment, network or system of the Company or any of its affiliates.

(iv) You acknowledged that have fully disclosed all Intellectual Property to the Company. You hereby assign and agree to assign to the Company (or as otherwise directed by the Company) your full right, title and interest in and to all Intellectual Property. You agree to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Intellectual Property to the Company (or as otherwise directed by the Company) and to permit the Company to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. You will not charge the Company for time spent in complying with these obligations. You acknowledged that all copyrightable works that you may have created during your employment is considered “work made for hire” and is, upon creation, owned exclusively by the Corporation.

For purposes of this Section, the following definitions apply:

“Confidential Information” means any and all information of the Company and its affiliates that is not generally available to the public. Confidential Information also includes any information received by the Company or any of its affiliates from any person with any understanding, express or implied, that it will not be disclosed. Confidential Information does not include information that enters the public domain, other than through your breach of your obligations under this Agreement.

“Intellectual Property” means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by you (whether alone or with others, whether or not during normal business hours or on or off Company premises) during your employment and during the period of 12 months immediately following termination of your employment that relate either to the business of the Company or to any prospective activity of the Company or any of its affiliates or that result from any work performed by you for the Company or any of its affiliates or that make use of Confidential Information or any of the equipment or facilities of the Company or any of its affiliates.

Initials _____

7. Restricted activities

(i) As per the original agreement you signed on or about August 8, 2015, during the 12-month period immediately following termination of your employment, regardless of the reason therefor, you shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company or any of its Affiliates in any geographic area in which the Company does business or is actively planning to do business or undertake any planning for any business competitive with the Company or any of its Affiliates. Specifically, but without limiting the foregoing, you agree not to work or provide services, in any capacity, whether as an employee, independent contractor or otherwise, whether with or without compensation, to any Person that is engaged in any business that is competitive with the business of the Company for this period.

(ii) During the same 12 month period immediately following your termination of employment, you will not directly or indirectly (a) solicit or encourage any customer of the Company or any of its Affiliates to terminate or diminish its relationship with them; or (b) seek to persuade any such customer or prospective customer of the Company or any of its Affiliates to conduct with anyone else any business or activity which such customer or prospective customer conducts or could conduct with the Company or any of its Affiliates; provided, however, that these restrictions shall apply (y) only with respect to those Persons who are or have been a customer of the Company or any of its Affiliates at any time within the immediately preceding one (1)-year period or whose business has been solicited on behalf of the Company or any of the Affiliates by any of their officers, employees or agents within such one (1) year period, other than by form letter, blanket mailing or published advertisement, and (z) only if you have performed work for such Person during your employment with the Company or one of its Affiliates or been introduced to, or otherwise had contact with, such Person as a result of your employment or other associations with the Company or one of its Affiliates or have had access to Confidential Information which would assist in your solicitation of such Person.

(iii) During the same 12 month period immediately following your termination of employment you will not, and will not assist any other Person to, (a) hire or solicit for hiring any employee of the Company or any of its Affiliates or seek to persuade any employee of the Company or any of its Affiliates to discontinue employment or (b) solicit or encourage any independent contractor providing services to the Company or any of its Affiliates to terminate or diminish its relationship with them. For the purposes of this Agreement, an “employee” or an “independent contractor” of the Company or any of its Affiliates is any person who was such at any time within the preceding two (2) years.

8. Non-Disparagement. During the 12 month period immediately following your termination of employment you will take no action which is intended, or would reasonably be expected, to harm the Company or any of its Affiliates or its or their reputation or which would reasonably be expected to lead to unwanted or unfavorable publicity to the Company or any of its Affiliates..

You further agree without reservation that these restraints are necessary for the reasonable and proper protection of the Releases, and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. You further agree that, were you to breach any of the covenants contained in this Section 8, the damage to the Releasees would be irreparable. You therefore agree that the Releasees, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by you of any of those covenants, without having to post bond, together with an award of its reasonable attorney’s fees incurred in enforcing its rights hereunder. So that the Releasees may enjoy the full benefit of the covenants contained in this Section 8, you further agree that the 12 month period shall be tolled, and shall not run, during the period of any breach by you of any of the covenants contained in this Section 8. You and the Company further agree that, in the event that any provision of this Section 8 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Releasees shall have the right to enforce all of your obligations to that Releasee under this Agreement, including without limitation pursuant to this Section 8. Finally, no claimed breach of this Agreement or other violation of law attributed to the Company, or change in the nature or scope of your employment relationship with the Company, shall operate to excuse you from the performance of your obligations under this Section 8.

Initials _____

9. Severability. Should any provision of this Agreement, other than the release contained in Section 5 and subject to Section 8 above when applicable, be declared or be determined by any court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and the illegal or invalid part, term, or provision shall be deemed not to be a part of this Agreement.

10. Entire Agreement. This Agreement contains the entire understanding and agreement between the Company and you with respect to your employment and its termination and all related matters, and cancels all previous oral and written negotiations, agreements, commitments, and writings in connection therewith. This Agreement is binding upon and shall inure to the benefit of the parties and their respective agents, assigns, heirs, executors, successors, and administrators. This Agreement shall be governed by the laws of the Province of Québec. This Agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and the Legal Director of the Company. The captions and headings in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

11. Transaction. The parties acknowledge and accept that the present Receipt, Release and Transaction constitutes a transaction within the meaning of articles 2631 *et seq.* of the *Civil Code of Québec*, and shall be and remain binding upon the parties, their heirs, executors, successors and assigns;

12. Consideration. You agree that you have been given adequate and reasonable time to consider the terms of this Agreement, and to consult with persons of your choosing to whom reference is made in Paragraph 5 regarding it.

13. Effect of Signature. Your signature on this letter indicates that you understand and agree completely to the severance arrangement that is described above, that you have accepted this arrangement in exchange for a complete release of claims against the Releasees and your other promises herein and that you have not relied on any promises or representations, express or implied, that are not set forth expressly in this Agreement. If the terms of this Agreement are acceptable to you, please sign, date and return it to me within ten (10) days of the date you receive it. At the time you sign it (the “Effective Date”), this Agreement shall take effect as a legally binding agreement between you and the Company on the basis set forth above. The enclosed copy of this Agreement, which you should also sign and date, is for your records.

14. Language. The parties hereto have expressly requested that the present Separation Agreement and Release be drafted in English. *Les parties aux présentes ont expressément requis que le présent document soit rédigé en anglais.*

(signatures follow on the next page)

Initials _____

On behalf of the Company, thank you for your service. We wish you the best in future endeavors.

Very truly yours,

Christine Bullen
interim President & CEO and
Managing Director USA &

I have carefully read this Agreement, understand its contents, and freely and voluntarily assent to all of the terms and conditions described herein.

(s) Isabelle Grisé
Isabelle Grisé

February 24, 2017
Date

Initials _____

EXECUTIVE EMPLOYMENT AGREEMENT

BETWEEN:

DAVIDsTEA (USA) INC., a Delaware corporation

(the “**Corporation**”)

-and-

CHRISTINE BULLEN

(the “**Executive**”)

WHEREAS the Corporation and the Executive have agreed to enter into an Executive Employment Agreement effective on (date to be confirmed in writing and be a day between May 2 and May 30, 2016), (the employment start date);

WHEREAS the Corporation wishes to employ the Executive on the terms and conditions set forth below;

AND WHEREAS the Executive wishes to be so employed by the Corporation;

NOW THEREFORE for good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

ARTICLE 1 - INTERPRETATION

1.1. Definitions.

For the purposes of this Agreement, the following definitions shall apply unless the context or subject matter is inconsistent therewith:

- (a) “**Affiliate**” means, with respect to any Person (the “**first party**”), any other Person that directs or indirectly controls, or is controlled by, or is under common control with, such first party, and “control” as used herein (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to: (i) vote 50% or more of the outstanding voting securities of such first party; or (ii) otherwise direct the management or policies of such first party by contract or otherwise;
- (b) “**Agreement**” means this Executive Employment Agreement, as amended, supplemented or modified in writing from time to time;
- (c) “**Base Salary**” has the meaning set forth in Section 3.1;
- (d) “**Basic Payments**” means an amount equal to the aggregate of the Executive’s (i) earned but unpaid Base Salary, (ii) unpaid business expense reimbursement, (iii) amount payable for unused vacation days, and (iv) earned but unpaid performance bonus for the year preceding the year during which the termination of the Executive’s employment occurs;
- (e) “**Board**” means the board of directors of DTI, as constituted from time to time;
- (f) “**Business Day**” means any day other than a Saturday, Sunday or any other day on which principal commercial banks are not open for business in Montreal, Quebec or Boston, Massachusetts;
- (g) “**Change in Control**” means the occurrence of any of the following events:
 - (i) any person (within the meaning of Section 3(a)(9) of the Exchange Act)), including any group (within the meaning of Rule 13d-5(b) under the Exchange Act), excluding (a) the Corporation, (b) any subsidiary of the Corporation, (c) any trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or of any subsidiary of the Corporation, together with all affiliates and associates (as such terms are used in Rule 12b-2 under the Exchange Act) of such person, directly or indirectly becomes the

beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of, or acquires control or direction directly or indirectly over, securities of the Corporation representing 50% or more of the total votes eligible to be voted for the election of directors or trustees ("**Voting Power**") attached to the Corporation's then outstanding securities;

- (ii) within any 12-month period (not including any period prior to the date the Plan was initially adopted), individuals who constitute the Board at the beginning of such period and any new director (other than a director designated by a person who has conducted or threatened a proxy contest, or has entered into an agreement with the Corporation to effect a transaction described in clause (i), (iii) or (iv) of this definition) whose election to the Board or nomination for election was approved by a majority of the directors then still in office who either (a) were directors at the beginning of the period or (b) whose election or nomination for election was previously so approved cease to constitute at least a majority of the Board or the board of directors of any successor to the Corporation;
 - (iii) the consummation of the merger, amalgamation, arrangement or consolidation of the Corporation with any other company; or
 - (iv) the complete liquidation of the Corporation or the sale or disposition by the Corporation of all or substantially all of the Corporation's assets;
 - (v) provided, however, that notwithstanding clauses (i), (iii) or (iv) of this definition a Change in Control shall not be deemed to have occurred if immediately following the transaction described in clause (i), (iii) or (iv) of this definition: (A) the holders of voting securities of the Corporation that immediately prior to the consummation of such transaction represented more than 50% of the combined Voting Power including any trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or of any subsidiary of the Corporation in existence prior to the transaction hold (x) securities of the entity resulting from such transaction (the "**Surviving Entity**") that represent more than 50% of the combined Voting Power of the then outstanding securities of the Surviving Entity, or (y) if applicable, securities of the entity that directly or indirectly has beneficial ownership of 100% of the securities eligible to elect directors or trustees of the Surviving Entity (the "**Parent Entity**") that represent more than 50% of the combined voting power of the then outstanding securities eligible to vote for the election of directors or trustees of the Parent Entity, and (B) no person (as defined in clause (i) of this definition), including any group (as defined in clause (i) of this definition), excluding any trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or of any subsidiary of the Corporation in existence prior to the prior to the transaction, together with all affiliates and associates (as those terms are defined in clause (i) of this definition), is directly or indirectly the beneficial owner (as defined in clause (i) of this definition) of, or exercises control or direction directly or indirectly over, 50% or more of the voting power of the Parent Entity (or, if there is no Parent Entity, the Surviving Entity) (any such transaction which satisfies all of the criteria specified in clauses (A) and (B) above being referred to as a "**Non-Qualifying Transaction**" and, following the Non-Qualifying Transaction, references in this definition of "Change in Control" to the "Corporation" shall mean and refer to the Parent Entity (or, if there is no Parent Entity, the Surviving Entity) and, if such entity is a company or a trust, references to the "Board" shall mean and refer to the board of directors or trustees, as applicable, of such entity).
- (h) "**COBRA**" means the Consolidated Omnibus Budget Reconciliation Act.
 - (i) "**DTI**" means DAVIDs TEA Inc., a Canadian Corporation;
 - (j) "**Good Reason**" means (i) a material reduction of the Executive's duties or responsibilities, including reporting responsibilities, without her express written consent, (ii) a material reduction in the Executive's total compensation, (iii) any relocation, at the sole discretion of the Corporation, of the Executive's principal office to a location which is more than 100 miles from the Corporation's U.S. office in the Greater Boston Area or any other area as determined from time to time in writing by the parties, or (iv) any other state of fact, act, omission, breach or default, giving rise to a constructive dismissal under law; and
 - (k) "**Person**" means an individual, partnership, unincorporated association, organization, syndicate, corporation, trustee, executor, administrator or other legal or personal representative.

ARTICLE 2 - POSITION AND TERM

2.1. Term

This Agreement will be effective as of *(date to be confirmed in writing and be a day between May 2 and May 30, 2016)* and will terminate as provided in Article 4 of this Agreement.

2.2. Title and Position.

- (a) The Corporation shall employ the Executive as the Managing Director, U.S.A.
- (b) As Managing Director, U.S.A, the Executive will be responsible for the p and l of all business channels (retail stores, web/e-comm, HRI, etc.) in the territory of the U.S.A.
- (c) As Managing Director, U.S.A, the Executive shall have the powers and authority and perform the duties and functions typically performed by the head of a country business unit / division and shall report to and be subject to the direction of the President & Chief Executive Officer of the Corporation and DTI.

2.3. Full and Faithful Service.

- (a) The Executive shall devote her full time and attention and her best efforts to the business and affairs of the Corporation and its Affiliates, and will ensure that she is not at any time engaged in conduct which would constitute a conflict with the interests of the Corporation or any of its Affiliates.
- (b) During her employment with the Corporation, except as contemplated in Subsections 2.2(b) and 2.3(c), the Executive shall not engage in any other employment or gainful occupation, undertake any other business, or be a director, officer or agent of any other company, firm or individual without the express prior written consent of the Board's Human Resources committee.
- (c) During the term of this Agreement, the Executive may act as a director and in a similar capacity for such other organizations as may be agreed between the Executive and the Board's Human Resources Committee, to the extent such service is reasonable in time and provided that such activities do not interfere with Executive's duties hereunder.

2.4. Place of Employment.

The Executive's base for providing her services under this Agreement shall be her home at 27 Greenleaf Dr. Exeter, NH 03883, U.S.A. unless both parties agree otherwise in writing. Notwithstanding the foregoing, the Executive shall travel from time to time to such locations as may be necessary or desirable in connection with her duties hereunder, including DTI's principal business offices located in Canada. This position requires regular travel across the U.S.A with regular periodic travel to our Store Support Centre in Montreal, Canada.

2.5. Work Permit

If a work permit is required for the Executive to enter the territory of Canada for the purposes of discharging her duties as an Executive of the Corporation, such permit shall be obtained by the Executive, with the Corporation's support. Pending obtainment of such permit, the Executive shall discharge these duties from her base in in the U.S.A. The Executive has no reason to believe that she will be denied a work permit to enter the territory of Canada.

ARTICLE 3 - COMPENSATION AND BENEFITS

3.1. Base Salary.

The annual base salary (the “**Base Salary**”) of the Executive shall be US\$310,000. The Executive's Base Salary shall be reviewed annually by the Board (or its human resources committee, as applicable) following the Executive's annual performance review and shall be such amount as is established by the Board (or its human resources committee, as applicable) from time to time. The Executive's Base Salary shall be payable by the Corporation to the Executive in arrears on a regular payroll basis.

3.2. Performance Bonus.

The Executive shall be eligible for an annual cash performance bonus with a target amount representing 30% of the Executive's annual Base Salary. The annual cash performance bonus at target shall be payable to the Executive in the event that the Board (or its human resources committee, as applicable) determines, in its sole discretion, that the performance milestones established by the Board (or its human resources committee, as applicable) near the beginning of each fiscal year have been achieved for such year. The Executive's annual cash performance bonus may exceed the target amount and be up to 60% of the Executive's Base Salary in the event that the Board (or its human resources committee, as applicable) determines, in its sole discretion, that the actual performance has significantly exceeded performance milestones determined by the Board (or its human resources committee, as applicable). The Executive's annual cash performance bonus for each year, if any, will be determined by the Board (or its human resources committee, as applicable) following the Executive's annual performance review. For fiscal 2016 cash performance bonus, the 30% target will be used as a minimum to calculate the payout. In addition, the fiscal 2016 bonus will be prorated based on time worked in fiscal 2016.

3.3. Long Term Incentives

The Executive shall be eligible to participate in the Company's Long Term Incentive Plan with an annual grant compensation value (not face value) target amount representing approximately 35% of her base salary up to a potential maximum of 50%. The Executive's annual Long Term Incentive Grant for each year, if any, will be determined by the Board (or its human resources committee, as applicable).

3.4. Vacation

The Executive shall be entitled to four (4) paid vacation weeks per year in accordance with the Corporation's policies and practices (as they may be amended and implemented from time to time) and the timing of vacations shall be determined with a view to the needs of the Corporation and its Affiliates from time to time. Accumulated vacation time may not be carried forward except with the prior written approval of the Board's Human Resources committee. For fiscal 2016, the executive shall be entitled to two (2) paid vacation weeks.

3.5. Expense Reimbursement.

The Corporation shall promptly reimburse the Executive for all reasonable expenses incurred by the Executive in the performance of her day-to-day duties under this Agreement.

3.6. Medical, Health and Insurance Benefits.

As of the effective date of this agreement, the Executive (and her eligible dependents) is eligible to participate in the corporation's medical, health and insurance benefit program.

3.7. Indemnification Agreement; D&O Insurance.

After commencing, DTI and the Executive will enter into an Indemnification Agreement in the form provided to the Executive in connection with the execution of this Agreement.

The Executive will be covered by the Corporation's D&O insurance to cover her liability, if applicable, as director and/or officer of the Corporation and its subsidiaries.

3.8. Special, one-time hire-on LTIP grant

The Executive shall receive a special, one-time hire on grant with an estimated target value at grant of \$465,000 USD. The value of this grant will be delivered 50% as no statutory stock options and 50% as restricted share units as per DTI's 2015 Omnibus Equity Incentive Plan and the related award agreements. The grant date will be the Executive's start date and the share price will be the closing price of the Corporation's share on the NASDAQ on the start date while the Black-Scholes value as set by DTI's Human Resources committee of the Board will be used to calculate the actual number of RSUs and stock options that the target value at grant provides. Vesting for the stock option portion of this grant will be 25% after each of the yearly anniversaries from the grant date. Vesting for the RSU award will be: 25% after 1 year from the grant date, 25% after 2 years, and the remaining 50% at the expiry of the 3rd year after the grant date.

3.9. No Other Benefits.

The Executive is not entitled to any other benefit or perquisite other than as specifically set out in this Agreement or as agreed to in writing by the Corporation.

ARTICLE 4 - TERMINATION

4.1. Termination of Employment.

The Executive is employed by the Corporation at will and her employment may be terminated by the Corporation at any time by written notice to the Executive, subject only to the severance entitlements provided in this Agreement.

4.2. Termination by the Corporation for Cause.

The Corporation may immediately terminate the employment of the Executive at any time for Cause by written notice to the Executive. Without limiting the foregoing, any one or more of the following events shall constitute "Cause":

- (a) fraud, misappropriation, embezzlement or reckless or willful destruction of the Corporation's property or other similar behavior by the Executive;
- (b) material violation by the Executive of applicable securities legislation or stock exchange rules, provided, however, that where such violation is of such a nature that it can be cured, such violation shall not constitute Cause if it is cured within 20 days of the Executive becoming aware of its occurrence;
- (c) any material neglect of duty or misconduct of the Executive in discharging any of the Executive's duties and responsibilities hereunder that is not cured within 20 days of the Executive becoming aware of its occurrence;
- (d) any conduct of the Executive which is materially prejudicial to the business of the Corporation or its Affiliates;
- (e) any material breach of Executive's obligations under this Agreement or any breach of any of the Corporation's or DTI's policies that is not cured within 20 days of written notification thereof to the Executive by the Corporation;
- (f) any failure of or refusal by the Executive to comply with the lawful policies, rules and regulations of the Corporation or its Affiliates that is not cured by the Executive within 20 days of written notification thereof to the Executive by the Corporation; or
- (g) any material breach of any statutory or common law duty of loyalty to the Corporation or its Affiliates; or
- (h) conviction (treating a nolo contendere plea as a conviction) of a felony (whether or not any right to appeal has been or may be exercised).

For purposes of the above definition of "Cause", no act or omission to act shall be "willful" if conducted in good faith or with a reasonable belief that such act or omission was in the best interests of the Corporation.

If the Corporation terminates the employment of the Executive for Cause under this Section 4.2, neither the Corporation nor any of its Affiliates shall be obligated to make any further payments under this Agreement except for the Basic Payments, which shall be paid to the Executive within thirty (30) days of the date of such termination of employment.

4.3. Termination by the Corporation Without Cause.

The Corporation may terminate the employment of the Executive at any time without Cause. In such event, subject to Section 4.8 and Section 7.7 below and subject to the Corporation receiving from the Executive a resignation from all positions then held, the Corporation shall pay to the Executive, in addition to the Basic Payments, the following payments (the "**Severance Payments**") (a) six months' Base Salary, (b) an amount equal to 6/12ths of the average annual cash performance bonus paid to the Executive for the two years immediately preceding the date of such termination of employment, and (c) an amount determined by multiplying the Executive's target annual cash performance bonus for the year in which the Executive's employment is terminated, by a fraction, the numerator of which is the number of days in such year that the Executive was employed by the Corporation and the denominator of which is 365. The Basic Payments shall be paid within thirty (30) days following the date of such termination of employment and, subject to Sections 4.8 and Section 7.7 below, the Severance Payments shall be paid by bi-weekly installments over the 6-month period following such

termination of employment. In addition, subject to the Executive's timely election to continue participation in the Corporation's group insurance plans (other than disability insurance plans) under COBRA, the Corporation shall pay to the Executive, on a monthly basis, an amount equal to the monthly premium cost of such participation for a period of 6 months following the termination of the Executive's employment or until the Executive commences employment with another employer, if earlier (together with the Severance Payments, the "**Severance**"). The Severance paid to the Executive hereunder shall be in lieu of any notice of such termination, and shall satisfy all of the Corporation's obligations (except with respect to any outstanding equity awards then held by the Executive) arising from the termination of the Executive's employment.

4.4. Termination by the Executive for Good Reason.

In the event that the Executive resigns from her employment with the Corporation in accordance with Section 4.6 within ninety (90) days following the occurrence of an event constituting Good Reason, subject to Section 4.8 and Section 7.7 below and subject to the Corporation receiving from the Executive a resignation from all positions then held, the Corporation shall be required to pay to the Executive, in addition to the Basic Payments, the Severance. The Basic Payments shall be paid within thirty (30) days following the date of such termination of employment and, subject to Sections 4.8 and Section 7.7 below, the Severance shall be paid at the same times set forth in Section 4.3 above, which Severance shall satisfy all of the Corporation's obligations (except with respect to any outstanding equity awards then held by the Executive) arising from the Executive's resignation of employment.

4.5. No Further Entitlement upon Termination.

If the employment of the Executive is terminated under this Article 4, the Executive's employment with the Corporation shall cease and neither the Corporation nor any of its Affiliates shall be obligated to make any payments to the Executive, other than as expressly provided for in this Article 4.

4.6. Resignation by Executive.

The Executive shall give the Corporation 30 days' notice of the resignation of the Executive's employment hereunder and, subject to the following sentence, the Executive's employment shall terminate on the date specified in the notice. Upon receipt of the Executive's notice of resignation, or at any time thereafter, the Corporation shall have the right to waive the notice period, in which event the Executive's employment shall terminate on the date of such waiver or such other date within the notice period as may be specified by the Corporation. In the event of a waiver by the Corporation of all or any portion of the notice period, the Executive shall only be entitled to receive her salary for the portion of the notice period up to the date of termination specified in such waiver and a reasonable amount in lieu of the Executive's benefits for that period, and the rest of the Basic Payments, which amounts shall be paid to the Executive within thirty (30) days of the date of such termination of employment.

4.7. Termination following a Change in Control.

In the event that the Executive's employment is terminated by the Corporation without Cause in accordance with Section 4.3 or that the Executive resigns from her employment with the Corporation for Good Reason in accordance with Section 4.4 within ninety (90) days following the occurrence of an event constituting Good Reason, provided that, in either case, such termination occurs within the 18-month period following a Change in Control of the Corporation, in lieu of installment payments provided for in Section 4.3 or 4.4, as applicable, the Severance shall be paid in a single lump sum within seventy-five (75) days following the date of such termination of employment, which shall satisfy all of the Corporation's obligations (except with respect to any outstanding equity awards then held by the Executive) arising from such termination of employment. In addition, all outstanding stock options and other equity awards then held by the Executive will become fully vested, and exercisable or payable, as the case may be (provided that any such payment will be made no earlier than the date permitted under Section 409A), and otherwise shall remain subject to the terms and conditions thereof.

4.8. Release and Restrictive Covenants.

- (a) Any obligation of the Corporation to provide the Executive the Severance or other benefits, including accelerated vesting of stock options and other equity awards, (for the avoidance of doubt, other than the Basic Payments) is conditioned (i) on the Executive signing and his continued compliance with the Restrictive Covenant Agreement (as defined below) in accordance with Article 5 below, (ii) on the Executive signing a release of claims in favor of the Corporation, its subsidiaries, their shareholders and their directors and officers in a form satisfactory to the Corporation, (the "**Release**") following the termination of the Executive's employment within a period of time not to exceed 45 days from the date of such termination of employment, and (iii) on the Executive not revoking the Release within the revocation period provided therein following the Executive's execution of the Release. Except as otherwise provided in Section 7.7 of this Agreement, any payments to be made in installments pursuant to the terms of this

Agreement shall be payable in accordance with the normal payroll practices of the Corporation, with the first such payment (which shall be retroactive to the day immediately following the date of the Executive's termination of employment) due and payable as soon as administratively practicable following the date the Release becomes effective, but not later than the date that is 60 days following the date the Executive's employment terminates. Notwithstanding the foregoing, if the date the Executive's employment terminates occurs in one taxable year and the date that is 60 days following such termination date occurs in a second taxable year, to the extent required by Section 409A, such first payment shall not be made prior to the first day of the second taxable year. For the avoidance of doubt, if the Executive does not execute a Release within the period specified in this Section 4.9, or if the Executive revokes the executed Release within the time period permitted by law, the Executive will not be entitled to any Severance or other benefits (including the accelerated vesting of stock options or other equity awards) set forth in this Article 4 (other than the Basic Payments), any stock options and other equity awards that vested on account of such termination as provided for in this Agreement shall be cancelled with no consideration due to the Executive, and neither the Corporation nor any of its subsidiaries will have any further obligations to the Executive under this Agreement or otherwise.

- (b) The parties agree that the provisions of Sections 4.3, 4.4 and 4.7 are fair and reasonable and that the amounts payable by the Corporation to the Executive pursuant to Sections 4.3, 4.4 and 4.7 are reasonable estimates of the damages which will be suffered by the Executive in the event of the termination of his employment in the circumstances described therein and shall not be construed as a penalty. The Executive acknowledges and agrees that the payments pursuant to this Article 4 shall be in full satisfaction of all terms of termination of his employment. Except as otherwise provided in this Article 4, the Executive shall not be entitled to any further termination payments, notice, pay in lieu of notice, severance pay, damages or any compensation whatsoever.

4.9. Return of Property.

Upon the termination of her employment with the Corporation, the Executive shall promptly deliver or cause to be delivered to the Corporation all books, documents (including all copies), money, securities or other property of the Corporation or its Affiliates which are in the possession, charge, control or custody of the Executive.

ARTICLE 5 - CONFIDENTIAL INFORMATION, DISCOVERIES AND NON- SOLICITATION

5.1. Non-Competition, Confidential Information, Discoveries and Non-Solicitation.

It shall be a condition to this Employment Agreement, that the Executive execute and comply with the terms of the Restrictive Covenant agreement attached hereto as a schedule, pursuant to which the Executive (a) shall not disclose confidential information of the Corporation, (b) shall not disparage the Corporation, and (c) for a period of 6 months following the Executive's termination of employment, shall not (i) solicit the employees, customers, and suppliers of the Corporation and (ii) engage in activity competitive with the business of the Corporation, it being understood that the business of the Corporation is the tea beverage specialty retail business (such agreement the "**Restrictive Covenant Agreement**").

ARTICLE 6 - REPRESENTATIONS AND WARRANTIES

6.1. Representations and Warranties.

The Executive represents and warrants to the Corporation that the execution and performance of this Agreement will not result in or constitute a default, breach, or violation, or an event that, with notice or lapse of time or both, would be a default, breach, or violation, of any understanding, agreement or commitment, written or oral, express or implied, to which the Executive is a party or by which the Executive or the Executive's property is bound. The Executive shall defend, indemnify and hold the Corporation and its Affiliates harmless from any liability, expense or claim (including solicitors' fees incurred in respect thereof) by any Person in any way arising out of, relating to, or in connection with any incorrectness or breach of the representations and warranties in this Section 6.1.

ARTICLE 7 - GENERAL CONTRACT PROVISIONS

7.1. Governing Law.

This Agreement and the agreements contemplated herein shall be construed and interpreted in accordance with the laws of the Commonwealth of Massachusetts. Any dispute concerning the terms of this Agreement and/or the employment relationship between the Corporation and the Executive, including the termination of that relationship, shall be resolved by arbitration, with arbitrator selection and arbitration procedures governed by the rules of the American Arbitration Association then in effect. Such arbitration shall be the

exclusive means of resolving any disputes between the parties, and the Executive expressly waives her right to a trial by jury. The decision of the arbitrator shall be final and binding upon the parties, subject to normal judicial review of arbitrator decisions as provided by law. The cost of any arbitration shall be divided equally between the Executive and the Corporation.

7.2. Entire Agreement.

This Agreement, together with the Restrictive Covenant Agreement, the Release and the Indemnification Agreement, constitutes the entire agreement between the parties with respect to the matter herein and supersedes all prior agreements relating to the subject matter hereof, if any. The execution of this Agreement has not been induced by, nor do any of the parties rely upon or regard as material, any representations, promises, agreements or statements whatsoever not incorporated herein and made a part hereof. This Agreement shall not be amended, altered or qualified except by a memorandum in writing signed by the parties.

7.3. Severability.

Wherever possible, each provision of this Agreement and each related document shall be interpreted in such manner as to be effective and valid under applicable law, but if any word, phrase, clause, sentence, article or paragraph contained in this Agreement is deemed unenforceable by any court of competent jurisdiction, such word, phrase, clause, sentence, article or paragraph shall be severed from this Agreement and the remaining words, phrases, clauses, sentences, articles and paragraphs of this Agreement shall remain in full force and effect.

7.4. Notice.

Any notice required to be given hereunder shall be deemed to have been properly given if delivered personally, by a nationally recognized courier service, or sent by prepaid registered mail or sent via facsimile transmissions as follows:

To the Executive:

27 Greenleaf Dr.
Exeter, NH 03883

To the Corporation:

5430, rue Ferrier
Mont-Royal, QC
H4P 1M2

If delivered personally or by courier service, the notice shall be deemed to have been received on the date of delivery; if sent by registered mail, the notice shall be deemed to have been received on the fourth day of uninterrupted postal service following the date of mailing; or if sent by facsimile, the notice shall be deemed to have been received on the date of transmission, unless, in any such case, such day is not a Business Day, in which case the notice shall be deemed to have been received on the next following Business Day. Either party may change its address for notice at any time, by giving notice to the other party pursuant to this Section 7.4.

7.5. Successors.

Neither party shall have the right to assign this Agreement without the consent of the other. This Agreement and all rights of the Executive hereunder shall enure to the benefit of and be enforceable by the Executive and his personal or legal representatives, heirs and executors and shall be binding upon the Corporation and its successors.

7.6. Taxes.

The Executive acknowledges and agrees that all payments, perquisites or benefits under this Agreement shall be subject to withholding of such amounts, if any, relating to tax or other payroll deductions as the Corporation may reasonably determine that it should withhold pursuant to any applicable law or regulation. Nothing in this Agreement shall be construed to obligate the Corporation to compensate the Executive for adverse tax consequences associated with his compensation.

7.7. Section 409A

- (a) The Executive and the Corporation agree that this Agreement shall be interpreted to comply with or be exempt from Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder (“**Section 409A**”) to the extent applicable, and all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A, to the extent applicable.
- (b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits considered “nonqualified deferred compensation” under Section 409A, to the extent applicable, upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Section 409A (after giving effect to the presumptions contained therein) and, for purposes of any such provision of this Agreement, references to a “termination”, “termination of employment” or like terms shall mean “separation from service”. If the Executive is deemed on the date of termination to be a “specified employee” within the meaning of that term under Section 409A(a)(2)(B), to the extent applicable, then with regard to any payment or the provision of any benefit that is considered nonqualified deferred compensation under Section 409A payable on account of a “separation from service”, such payment or benefit shall be made or provided at the date which is the earlier of (a) the expiration of the six-month period measured from the date of such “separation from service”, and the date of the Executive's death (the “**Delay Period**”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section 7.8(b) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed on the first Business Day following the expiration of the Delay Period to the Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid in accordance with the normal payment dates specified for them herein.
- (c) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, to the extent applicable, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits, to be provided in any other taxable year; and (iii) such payments shall be made on or before the last day of the Executive's taxable year following the taxable year in which the expense occurred.
- (d) For purposes of Section 409A, the Executive's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.
- (e) In no event shall the Corporation or any of its affiliates have any liability relating to the failure or alleged failure of any payment or benefit under this Agreement to comply with, or be exempt from, the requirements of Section 409A.

7.8. Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

{Signature page to follow.}

IN WITNESS WHEREOF the parties have duly executed this Agreement.

SIGNED, SEALED & DELIVERED

in the presence of:

/s/ ILLEGIBLE

Witness

)

)

)

)

)

Executive

/s/ Christine Bullen

Christine Bullen

DAVIDsTEA

By: Marc Macdonald

Name: Marc Macdonald

Title: Chief HR Officer

By: Sylvain Toutant

Name: Sylvain Toutant

Title: President & CEO

DAVIDsTEA INC.
CODE OF ETHICS
FOR SENIOR MANAGERS AND FINANCIAL OFFICERS

I. Purpose of Code of Ethics

The purpose of this Code of Ethics for Senior Managers and Financial Officers (the “Code of Ethics”) is to promote the honest and ethical conduct of our Senior Managers and Financial Officers (described below), including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; to promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by DAVIDsTEA Inc. (the “Company”); and to promote compliance with all applicable rules and regulations that apply to the Company and its officers. The text of the Code of Ethics may also be found at www.davidstea.com.

II. Introduction

This Code of Ethics is applicable to the Company's President, Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Corporate Secretary ((or any persons performing similar functions), together, the “Senior Managers and Financial Officers”). Senior Managers and Financial Officers are also subject to the Code of Conduct and Business Ethics applicable to all employees. References in this Code of Ethics to the Company means the Company or any of its subsidiaries.

While we expect honest and ethical conduct in all aspects of our business from all of our employees, we expect the highest possible honest and ethical conduct from our Senior Managers and Financial Officers. In this role, you are an example for other employees. Your actions, behavior and leadership should display integrity and ethical values that have not been compromised, and will therefore foster a culture of integrity and honesty on your team and throughout the entire Company. In addition, it is your responsibility to ensure that all employees with whom you work are familiar with the Employee Code of Conduct in the Staff Handbook. Compliance with this Code is a condition to your employment and any violations of the Code of Ethics may result in disciplinary action, up to and including termination of your employment.

Waivers of this Code may be made only by the Board of Directors or a Board committee and will be disclosed in accordance with applicable law and rules under the Nasdaq Global Market.

III. Conflicts of Interest

A conflict of interest occurs when your private interests interfere, or appear to interfere, in any way, with the interests of the Company as a whole. Conflicts of interest can also arise when you take action or you or a member of your family have interests that may make it difficult for you to perform your duties to the Company effectively or when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company. Although we cannot list every conceivable conflict, following are some common examples that illustrate actual or apparent conflicts of interest that should be avoided:

Improper Personal Benefits from the Company

Conflicts of interest arise when an officer or a member of his or her family receives improper personal benefits as a result of his or her position in the Company. You may not accept any benefits from the Company that have not been duly authorized and approved pursuant to Company policy and procedure, including any Company loans or guarantees of your personal obligations.

Financial Interests in Other Businesses

You should avoid having an ownership interest in any other enterprise if that interest compromises or appears to compromise your loyalty to the Company. For example, you may not own an interest in a company that competes with the Company or that does business with the Company (such as a supplier) unless you obtain the written approval of the Company's Corporate Secretary before making any such investment. However, it is not typically considered, and the Company does not consider it, a conflict of interest (and therefore prior written approval is not required) to make investments in competitors, clients or suppliers that are listed on a national or international securities exchange so long as the total value of the investment is less than one tenth of one percent (0.1%) of the outstanding stock of the corporation and the amount of the investment is not so significant that it would affect your business judgment on behalf of the Company.

Business Arrangements with the Company

Without the prior written approval of the Company's Corporate Secretary, you may not participate in a joint venture, partnership or other business arrangement with the Company.

Corporate Opportunities

If you learn of a business or investment opportunity through your position at the Company or information you gain as a result of your position, such as from a competitor or actual or potential supplier or business associate of the Company (including a principal, officer, director or employee of any of the above), you may not participate in the business or make the investment without the prior written approval of the Company's Corporate Secretary. Such an opportunity should be considered an investment opportunity for the Company in the first instance.

Outside Employment or Activities With a Competitor

Simultaneous employment with or serving as a director of a competitor of the Company is strictly prohibited, as is any activity that is intended to or that you should reasonably expect to advance a competitor's interests at the expense of the Company's interests. You may not market products or services in competition with the Company's current or potential business activities. It is your responsibility to consult with the Company's Compliance Officer to determine whether a planned activity will compete with any of the Company's business activities before you pursue the activity in question.

Outside Employment With a Supplier

Without the prior written approval of the Company's Corporate Secretary, you may not be a supplier or be employed by, serve as a director of or represent a supplier to the Company. Without the prior written approval of the Company's Corporate Secretary, you may not accept money or benefits of any kind from a third party as compensation or payment for any advice or services that you may provide a client, supplier or anyone else in connection with its business with the Company.

Family Members Working In The Industry

If your spouse or domestic partner, your children, parents or in-laws, or someone else with whom you have a financial relationship is a competitor or supplier of the Company or is employed by one, you must disclose the situation to the Company's Corporate Secretary so that the Company may assess the nature and extent of any concern and how it can be resolved. You must carefully guard against inadvertently disclosing the Company's confidential information and being involved in decisions on behalf of the Company that involve the other enterprise.

Fair Dealing

You should always endeavor to deal fairly with Company customers, suppliers, competitors and employees. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practices.

If you have any doubt as to whether or not conduct would be considered a conflict of interest, please consult with the Company's Corporate Secretary.

IV. Accurate Periodic Reports and Other Public Communications

Accuracy of Company Records and Reporting

As you are aware, full, fair, accurate, timely and understandable disclosures in our periodic reports and in our other communications is required and is essential to our continued success. Please exercise the highest standard of care in preparing such materials. We have established the following guidelines in order to ensure the quality of our periodic reports.

- All Company accounting records, as well as reports produced from those records, must be kept and presented in accordance with the laws of each applicable jurisdiction.
- All records must fairly and accurately reflect the transactions or occurrences to which they relate.
- All records must fairly and accurately reflect in reasonable detail the Company's assets, liabilities, revenues and expenses.
- The Company's accounting records must not contain any false or intentionally misleading entries.
- No transaction may be intentionally misclassified as to accounts, departments or accounting periods or in any other manner.
- All transactions must be supported by accurate documentation in reasonable detail and recorded in the proper account and in the proper accounting period.
- No information may be concealed from the internal auditors or the independent auditors.
- Compliance with International Financial Reporting Standards and the Company's system of internal accounting controls is required at all times.

Confidential Information

You may be entrusted with the Company's confidential business information. You are required to safeguard and use such information only for the Company's purposes. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. You are expected to maintain the confidentiality of any and all such information entrusted to you by the Company or our customers.

Failure to observe this duty of confidentiality may compromise our competitive advantage over competitors and may additionally result in a violation of securities, antitrust or employment laws. It may also violate agreements providing for the protection of such confidential information. You should not discuss confidential company information outside the company with anyone, including your family.

Insider Trading Prohibited

It is illegal and against this Code of Ethics for any person, either personally or on behalf of others, to buy or sell securities while in possession of material nonpublic information or communicate (or "tip") material nonpublic information to another person who trades in the securities on the basis of the information or who in turn passes the information on to someone who trades. Please see the Company's Insider Trading Policy for additional details and responsibilities.

V. Compliance with Laws and Ethics Code

You are expected to comply with both the letter and spirit of all applicable governmental rules and regulations and this Code of Ethics, and to report any suspected violations of applicable governmental rules and regulations or this Code of Ethics to the Company's Corporate Secretary. No one will be subject to retaliation because of a good faith report of a suspected violation. If you fail to comply with this Code of Ethics or any applicable laws or regulations, you may be subject to disciplinary measures, up to and including discharge.

No Rights Created

This Code is a statement of certain fundamental principles, policies and procedures that govern the Company's Senior Managers and Financial Officers in the conduct of the Company's business. It is not intended to and does not create any rights in any employee, customer, supplier, competitor, shareholder or any other person or entity.

CODE OF ETHICS ACKNOWLEDGMENT FORM

I have received and read the Code of Ethics for Senior Managers and Financial Officers, and I understand its contents. I agree to comply fully with the standards contained in the Code of Ethics and the Company's related policies and procedures. I understand that I have an obligation to report to the Company's Corporate Secretary any suspected violations of the Code of Ethics.

I also acknowledge that I have reported any areas of non-compliance with this policy to the Compliance Officer and have summarized such areas, if any, in the section below.

/s/ C Bullen

Printed Name

/s/ C Bullen

Signature

Date

4/18/16

Date

Identification and explanation of any areas of non-compliance with the Code of Ethics for Senior Management and Financial Officers:

**Non-disparagement, confidentiality, non-compete, and non-solicitation clauses to be
added to Christine Bullen's Employment Agreement**

1. Confidential Information and Restricted Activities.

(a) Confidential Information. During the course of your employment with the Corporation, you will learn of Confidential Information, as defined below, and you may develop Confidential Information on behalf of the Corporation and its Affiliates. You agree that you will not use or disclose to any Person (except as required by applicable law or for the proper performance of your regular duties and responsibilities for the Corporation) any Confidential Information obtained by you incident to your employment or any other association with the Corporation or any of its Affiliates. You agree that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination.

(b) Protection of Documents. All documents, records and files, in any media of whatever kind and description, relating to the business, present or otherwise, of the Corporation or any of its Affiliates, and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by you, shall be the sole and exclusive property of the Corporation. You agree to safeguard all Documents and to surrender to the Corporation, at the time your employment terminates or at such earlier time or times as the Board or its designee may specify, all Documents then in your possession or control. You also agree to disclose to the Corporation, at the time your employment terminates or at such earlier time or times as the Board or its designee may specify, all passwords necessary or desirable to obtain access to, or that would assist in obtaining access to, any information which you have password-protected on any computer equipment, network or system of the Corporation or any of its Affiliates.

(c) Assignment of Rights to Intellectual Property. You shall promptly and fully disclose all Intellectual Property to the Corporation. You hereby assign and agree to assign to the Corporation (or as otherwise directed by the Corporation) your full right, title and interest in and to all Intellectual Property. You agree to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Corporation to assign the Intellectual Property to the Corporation (or as otherwise directed by the Corporation) and to permit the Corporation to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. You will not charge the Corporation for time spent in complying with these obligations. All copyrightable works that you create during your employment shall be considered "work made for hire" and shall, upon creation, be owned exclusively by the Corporation.

(d) Restricted Activities. You agree that the following restrictions on your activities during and after your employment are necessary to protect the good will, Confidential Information, trade secrets and other legitimate interests of the Corporation and its Affiliates:

(i) While you are employed by the Corporation and during the 6-month period immediately following termination of your employment, regardless of the reason therefor (in the aggregate, the "Restricted Period"), you shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Corporation or any of its Affiliates in any geographic area in which the Corporation does business or is actively planning to do business during your employment or, with respect to the portion of the Restricted Period that follows the termination of your employment, at the time your employment terminates (the "Restricted Area") or undertake any planning for any business competitive with the Corporation or any of its Affiliates in the Restricted Area. Specifically, but without limiting the foregoing, you agree not to work or provide services, in any capacity, whether as an employee, independent contractor or otherwise, whether with or without compensation, to any Person that is engaged in any business that is competitive with the business of the Corporation or its Affiliates, as conducted or in planning during your employment with the Corporation, in the Restricted Area. By business that is competitive with the business of the Corporation, we mean the specialty tea retail and/or tea beverage business.

(ii) During the Restricted Period, you will not directly or indirectly (a) solicit or encourage any customer of the Corporation or any of its Affiliates to terminate or diminish its relationship with them; or (b) seek to persuade any such customer or prospective customer of the Corporation or any of its Affiliates to conduct with anyone else any business or activity which such customer or prospective customer conducts or could conduct with the Corporation or any of its Affiliates; provided, however, that these restrictions shall apply (y) only with respect to those Persons who are or have been a customer of the Corporation or any of its Affiliates at anytime within the immediately preceding one (1)-year period or whose business has been solicited on behalf of the Corporation or any of the Affiliates by any of their officers, employees or agents within such one (1) year period, other than by form letter, blanket mailing or published advertisement, and (z) only if you have performed work for such Person during your employment with the Corporation or one of its Affiliates or been introduced to, or otherwise had contact with, such Person as a result of your employment or other associations with the Corporation or one of its Affiliates or have had access to Confidential Information which would assist in your solicitation of such Person.

(iii) During the Restricted Period, you will not, and will not assist any other Person to, (a) hire or solicit for hiring any employee of the Corporation or any of its Affiliates or seek to persuade any employee of the Corporation or any of its Affiliates to discontinue employment or (b) solicit or encourage any independent contractor providing services to the Corporation or any of its Affiliates to terminate or diminish its relationship with them. For the purposes of this Agreement, an "employee" or an "independent contractor" of the Corporation or any of its Affiliates is any person who was such at any time within the preceding two (2) years.

In signing this Agreement, you give the Corporation assurance that you have carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed on you under this Section 1. You agree without reservation that these restraints are necessary for the reasonable and proper protection of the Corporation and its Affiliates, and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. You further agree that, were you to breach any of the covenants contained in this Section 1, the damage to the Corporation and its Affiliates would be irreparable. You therefore agree that the Corporation, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by you of any of those covenants, without having to post bond, together with an award of its reasonable attorney's fees incurred in enforcing its rights hereunder. So that the Corporation may enjoy the full benefit of the covenants contained in this Section 1, you further agree that the Restricted Period shall be tolled, and shall not run, during the period of any breach by you of any of the covenants contained in this Section 1. You and the Corporation further agree that, in the event that any provision of this Section 1 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Corporation's Affiliates shall have the right to enforce all of your obligations to that Affiliate under this Agreement, including without limitation pursuant to this Section 1. Finally, no claimed breach of this Agreement or other violation of law attributed to the Corporation, or change in the nature or scope of your employment relationship with the Corporation, shall operate to excuse you from the performance of your obligations under this Section 1.

2. Non-Disparagement. During the course of your employment with the Corporation and during the Restricted Period, you agree to take no action which is intended, or would reasonably be expected, to harm the Corporation or any of its Affiliates or its or their reputation or which would reasonably be expected to lead to unwanted or unfavorable publicity to the Corporation or any of its Affiliates.

3. Definitions. For purposes of this Agreement, the following definitions apply:

(a) "Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Corporation, where control may be by management authority, equity interest or otherwise.

(b) "Confidential Information" means any and all information of the Corporation and its Affiliates that is not generally available to the public. Confidential Information also includes any information received by the Corporation or any of its Affiliates from any Person with any understanding, express or implied, that it will not be disclosed. Confidential Information does not include information that enters the public domain, other than through your breach of your obligations under this Agreement.

(c) "Intellectual Property" means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by you (whether alone or with others, whether or not during normal business hours or on or off Corporation premises) during your employment and during the period of 12 months immediately following termination of your employment that relate either to the business of the Corporation or to any prospective activity of the Corporation or any of its Affiliates or that result from any work performed by you for the Corporation or any of its Affiliates or that make use of Confidential Information or any of the equipment or facilities of the Corporation or any of its Affiliates.

(d) "Person" means an individual, a corporation, a limited liability Corporation, an association, a partnership, an estate, a trust or any other entity or organization, other than the Corporation or any of its Affiliates.

/s/ Christine Bullen
Christine Bullen

4/18/2016
Date

/s/ ILLEGIBLE
Witness

4.18.16
Date

MEMORANDUM OF AGREEMENT

BY AND BETWEEN: **DAVIDsTEA (USA) INC.,**
(the "**Employer**")

AND: **CHRISTINE BULLEN**
(the "**Executive**")

WHEREAS the Employer and the Executive entered into an Employment Agreement effective on May 24, 2016 (the "**Employment Agreement**");

WHEREAS the Employer and the Executive have agreed to a temporary change in the Executive's role and compensation in accordance with the terms and conditions of the present Memorandum of Agreement (the "**Agreement**");

NOW, THEREFORE for good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

ARTICLE I
TITLE AND POSITION

1.1 Title and Position

- a) In addition to her position as Managing Director USA under the terms and conditions of the Employment Agreement, effective as of January 31, 2017 ("**Start Date**"), the Executive will act, on a temporary basis, as interim President and CEO of DavidsTEA Inc. ("**Interim President and CEO**").
- b) As Interim President and CEO, the Executive shall be a member of the Board of Directors of the Employer and DavidsTEA Inc. ("**DT**"), and have the powers and authority and perform the duties and functions typically performed by the President and CEO of a publicly listed company and shall report to and be subject to the direction of the Board of Directors of DT and its non-Executive Chairman.

1.2 Travel

While acting as the Interim President and CEO in accordance with this Agreement, the Executive agrees to travel to DT's Montreal office on a weekly basis from Monday through Thursday inclusively.

1.3 Work Permit

A work permit will likely be required for the Executive to enter the territory of Canada for the purposes of discharging her duties for the purposes of this Agreement. Such work permit shall be obtained by the Executive, with the Employer's and DT's support, and at the expense of the Employer. The Executive has no reason to believe that she will be denied a work permit to enter the territory of Canada and understands that she must obtain and hold a valid work permit at all times during this Agreement.

ARTICLE II

BONUS AND BENEFITS

2.1 Signing Bonus

Subject to the execution of the present Agreement, and conditional on complying with the terms provided herein, the Employer shall pay to the Executive a signing bonus equal to ten thousand US dollars (US\$10,000), less applicable deductions, payable within fifteen (15) days following the Start Date.

2.2 Monthly Bonus

During this Agreement, and conditional on complying with the terms provided herein, the Employer shall pay to the Executive a monthly bonus equal to five thousand US dollars (US\$5,000), less applicable deductions, payable within fifteen (15) days following the end of the month in which the bonus relates ("**Monthly Bonus**"); it being understood that the Monthly Bonus shall be pro-rated for any partial month worked by the Executive under the terms of this Agreement, as the case may be.

2.3 Expense Reimbursement

The Employer shall reimburse the Executive for all reasonable expenses incurred by the Executive in the performance of her day-to day duties under this Agreement, including expenses related to travel to the Montreal office and temporary living accommodations in Montreal, as well as other reasonable business related expenses.

2.4 No Other Benefits

The Executive is not entitled to any other additional benefits or perquisite for this temporary assignment as interim President and CEO other than as specifically set out in this Agreement, unless otherwise agreed to in writing between the parties.

ARTICLE III

TERMS OF TEMPORARY ASSIGNMENT

3.1 Termination by the Employer

The Executive hereby agrees and understands that the assignment of the role of Interim President and CEO, and the Executive's entitlement to the Monthly Bonus are temporary. In that context, the Agreement may be terminated by the Employer at any time, the whole without any notice, payment in lieu of notice or indemnity whatsoever.

3.2 Termination by the Executive

The Executive may also terminate this Agreement by providing ninety (90) days' written notice to the Employer. Upon receipt of such notice, or at any time thereafter, the Employer shall have the right to waive the notice period, in whole or in part, in which case this Agreement, and payment of the Monthly Bonus shall terminate on the date of such waiver or such other date within the notice period as may be specified by the Employer.

For greater clarity, the parties hereby agree and understand the termination of the Agreement as provided herein shall not be construed as a termination of the Employment Agreement, which shall continue in full force and effect, unless terminated in accordance with the terms provided therein.

ARTICLE IV
GENERAL PROVISIONS

4.1 Entire Agreement

This Agreement, together with the Employment Agreement and the other agreements to which the aforementioned agreements refer, constitute the entire agreement between the parties with respect to the matter herein and supersede all prior agreements relating to the subject matter hereof. For greater clarity, the parties hereby agree that, except as provided herein, all other terms and conditions of the Executive's employment pursuant to the Employment Agreement shall remain unchanged. The execution of this Agreement has not been induced by, nor do any of the parties rely upon or regard as material, any representations, promises, agreements or statements whatsoever not incorporated herein and made a part hereof. This Agreement shall not be amended, altered or qualified except by a memorandum in writing signed by the parties.

4.2 Taxes

The Executive acknowledges and agrees that all payments, perquisites or benefits under this Agreement shall be subject to withholding of such amounts, if any, relating to tax or other payroll deductions as the Employer may reasonably determine that it should withhold pursuant to any applicable law or legislation. Nothing in this Agreement shall be construed to obligate the Employer to compensate the Executive for adverse tax consequences associated with her compensation, as the case may be.

4.3 Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

4.4 Governing Law

This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth of Massachusetts. Any dispute concerning the terms of this Agreement and/or the employment relationship between the Employer and the Executive, including the termination of that relationship, shall be finally resolved by arbitration, with arbitrator selection and arbitration procedures governed by the rules of the American Arbitration Association then in effect. Such arbitration shall be the exclusive means of resolving any disputes between the parties, and the Executive expressly waives her right to a trial by jury. The decision of the arbitrator shall be final and binding upon the parties, subject to normal judicial review of arbitrator decisions as provided by law. The cost of any arbitration shall be divided equally between the Executive and the Corporation.

IN WITNESS WHEREOF, the parties have duly executed this Agreement on January ___, 2017.

SIGNED, SEALED AND DELIVERED)

In the presence of:)

)

)

(s) Louise Poirier)

(s) Christine Bullen

Witness)

Christine Bullen

DAVIDsTEA (USA) Inc.

By: (s) Maurice Tousson

Name: Maurice Tousson

Title: Chair, Board of Directors

By: (s) Lorenzo Salvaggio

Name: Lorenzo Salvaggio

Title: Director (Board)

PRIVATE & CONFIDENTIAL

October 20, 2016

Sylvain Toutant
1177 Place Henri-Gauthier
Montreal, Québec
H2M 2S1

Dear Sylvain,

Further to our discussions, this letter confirms our agreement regarding the cessation of your employment with DAVIDsTEA Inc. (the “**Company**”) and its subsidiaries, effective as of January 28, 2017 (being the last day of the Company’s 2016 fiscal year), or at an earlier date, as determined by the Chairman of the Board of Directors of the Company (the “**Board**”), on behalf of Board, in consultation with Sylvain Toutant, (the “**Effective Date**”), the whole as more fully described below.

I. INTERESTS IN THE COMPANY

1. **Severance Payment.** Subject to the conditions set forth in this letter, the Company shall continue to pay to Sylvain Toutant, in accordance with and subject to usual deductions at source, (a) the Basic Payments (as defined in Sylvain Toutant’s amended and restated executive employment agreement (the “**Employment Agreement**”) dated March 30, 2015) and (b) his salary (at a rate of CDN\$392,000 per annum) for eighteen months, inclusive of all outstanding accrued vacation days, from the Effective Date.
2. **Performance Bonus.** In accordance with the Employment Agreement, Sylvain Toutant is eligible for an annual cash performance bonus in the event the Board or its human resources and compensation committee (the “**Committee**”) determines, in their sole discretion, that the performance milestones established by the Board (or the Committee) near the beginning of each fiscal year have been achieved for such year. The 2016 bonus payment (the “**2016 Bonus**”) will be determined by the Board (or the Committee) based on the 2016 audited fiscal year-end results of the Company to be filed publicly. The 2016 Bonus, if any, shall be paid to Sylvain Toutant within 30 days following the date on which the audited fiscal year-end results are filed and in accordance with the conditions set forth in this letter and subject to the usual deductions at source. For greater certainty, the 2016 Bonus shall be paid in one payment.
3. **Common Shares.** Sylvain Toutant currently holds the following common shares in the capital of the Company (“**Common Shares**”) including 78,170 Common Shares (being the “**Restricted Shares**”) which are subject to the Company’s 2015 Omnibus Equity Incentive Plan (the “**LTIP**”) dated March 31, 2015 and Restricted Stock Agreements (the “**RSAs**”) between the Company and Sylvain Toutant dated March 31, 2015 and April 15, 2016. The number of Common Shares underlying the Restricted Shares that are unvested as of the Effective Date will immediately vest in an amount equal to (i) the product obtained by multiplying (A) the total number of Common Shares underlying the award by (B) a fraction, the numerator of which is the number of days in the period beginning on the Date of Grant (as such term is defined in the LTIP) and ending on the six-month anniversary of the Effective Date, and the denominator of which is the number of days in the period beginning on the Date of Grant and ending on the third anniversary of the Date of Grant, minus (ii) the number of Common Shares underlying the award that had vested pursuant to the vesting schedule as of the Effective Date. The portion of any Restricted Share that is unvested and does not vest after application of the preceding sentence will be immediately forfeited upon the Effective Date without any payment or consideration due by the Company.
4. **Vested Options.** Sylvain Toutant was granted: (i) an option to purchase 583,616 Common Shares (the “**2014 Option Shares**”) pursuant to an amended and restated equity incentive plan dated April 3, 2012, as amended from time to time (the “**Equity Plan**”) and a stock option agreement (the “**2014 Option Agreement**”) dated June 2, 2014, as amended, and, (ii) an option to purchase 42,760 Common Shares (the “**2016 Option Shares**” and, together with

the 2014 Option Shares, the “**Options**”) in accordance with the LTIP and a stock option agreement (the “**2016 Option Agreement**”) dated April 15, 2016, as amended.

- (a) As of the date of execution of this agreement, 42,843 of the 2014 Option Shares have been exercised by Sylvain Toutant, 297,605 of the remaining 2014 Option Shares have vested (the “**Vested 2014 Options**”) and 243,168 of the 2014 Options Shares remain unvested (the “**Unvested 2014 Options**”). Notwithstanding the terms of the 2014 Option Agreement and the Equity Plan, the Vested 2014 Options shall remain exercisable for a period of 180 days following the Effective Date and all Unvested 2014 Options shall be fully accelerated and vested as at the Effective Date and be exercisable for a period of 180 days following the Effective Date.
- (b) As of the date of execution of this agreement, none of the 2016 Option Shares have vested and 42,760 of the 2016 Options Shares remain unvested (the “**Unvested 2016 Options**”). Notwithstanding the terms of the 2016 Option Agreement and as authorized under the LTIP, the Board approved that all of the Unvested 2016 Options shall be deemed fully accelerated and vested as at the Effective Date and be exercisable for a period of 180 days following the Effective Date.

In accordance with the terms of the Equity Plan and the LTIP, as applicable, the options (together, the “**Options**”) to purchase the 2014 Option Shares and the 2016 Option Shares shall immediately expire and be cancelled on the day that is 180 days plus one day following the Effective Date.

Sylvain Toutant further agrees that he shall not, without the Company’s prior written approval, directly or indirectly, sell any number of Common Shares (whether such Common Shares are currently held or become held by him as a result of the exercise of Options or upon the vesting of Restricted Shares in accordance with paragraphs I.3 and I.4 above) that exceeds, in any given day, 15% of the 30-day average daily volume of the Common Shares traded on the NASDAQ Stock Exchange.

- 5. The amounts and concessions mentioned in paragraphs I.1 to I.4 above include all amounts and benefits to which Sylvain Toutant may be entitled pursuant to any consulting agreement, any benefit package, any employment agreement, any other contract (verbal or written) existing between Sylvain Toutant and the Company and its subsidiaries, and their respective officers, directors, shareholders, successors, predecessors and affiliates and all applicable laws.

II. *END OF EMPLOYMENT RELATIONSHIP*

- 1. **Cessation of employment relationship.** As of the Effective Date, Sylvain Toutant and the Company agree to end their employment relationship, and Sylvain Toutant agrees to resign from every office and directorship held with the Company or any of its subsidiaries. Sylvain Toutant and the Company agree to execute any and all documents appropriate to evidence such cessation of employment. The Company will complete a Record of employment stating “end of employment contract”.
- 2. **Group Benefits.** The existing group benefit coverage shall continue in accordance with the terms of the policies (other than disability insurance plans which shall terminate immediately) until the earlier of: (i) the date that is eighteen (18) months after the Effective Date, or (ii) the date Sylvain Toutant accepts alternate employment providing group benefit insurance coverage.
- 3. **Computer and Phone.** Subject to paragraph II.4 below, the Company hereby agrees that Sylvain Toutant can retain ownership of the laptop computer and can retain ownership of the cellular telephone acquired for and used by him in connection with his employment with the Company following the transfer of the contract relating to said cellular telephone from the Company’s name to Sylvain Toutant’s name.
- 4. **Office Transition.** As discussed, the transition out of your office at the Company will be completed by the end of the Effective Date, and by then, you will have returned all equipment, documents and confidential information

belonging to the Company or its affiliates used or possessed by you, or under your control, in the course of your employment with the Company, other than those items for which you shall retain ownership pursuant to paragraph II.3. To the extent that any Company data (the “**Company Data**”) resides on your personal computer hardware or software, you agree to make a copy of such property and deliver it to the Company, and immediately following the Effective Date, you will permanently destroy such Company Data so that it is irretrievable.

5. **Post-Employment Obligations.** You acknowledge and agree to comply with the obligations set forth in Schedule “B”.
6. **Non-Disclosure.** You agree to keep the terms of this letter in strict confidence and not to disclose the fact, terms or nature of this letter to any person, except to your immediate family and, to the extent that such disclosure may permit you to obtain tax planning, legal or similar advice, to your legal and financial advisers, and as may be required by law. You will cause your immediate family and advisors to keep this letter confidential. Reciprocally, the Company, agrees to keep the terms of this letter in strict confidence and not to disclose the fact, terms or nature of this letter to any person, except to its legal and financial advisers, and as may be required by law.
7. **Mutual Non-Disparagement and Communications.** You agree not to engage in any conduct that involves the making or publishing of written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumours, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or goodwill of the Company, its affiliates, its present and former officers, directors, employees, representatives and agents, or the products or services they provide (“**Disparaging Conduct**”). You further agree not to authorize or assist others to engage in Disparaging Conduct.

Reciprocally, the Company will instruct its executive officers and board members not to engage in any Disparaging Conduct in respect of you and will instruct its executive officers and board members not to authorize or assist others to engage in Disparaging Conduct with respect to Sylvain Toutant.

The Company and you agree to work together in good faith to establish a mutually acceptable plan with respect to any communications with third parties by either the Company or yourself in respect of the cessation of your business relationship with the Company.

8. **Release Form.** In addition to the above conditions, all payments under this letter are conditional upon you signing a copy of this letter, signing the full and final release form attached as Schedule “A” in the presence of a witness and returning original signed copies of both the letter and release form on the date hereof.
9. **Ongoing Compliance.** The obligation to pay the payments in this letter is conditional upon your ongoing compliance with your obligations in this letter. If you materially breach any of your obligations to the Company, the terms of this letter and the release will continue to be binding however, all payments under this letter will cease and the Company will be under no obligation to make any further payments.
10. **Legal Fees and Reimbursement for Costs.** The Company agrees to pay your reasonable legal fees and any out of pocket expenses (following receipt by the Company of adequate documentation of such expenses) you reasonably incurred in connection with end of the employment relationship, including the negotiation and the review of this letter up to a maximum of \$10,000 before taxes and disbursements.

III. GENERAL PROVISIONS

1. **Currency and Withholdings.** All payments under this letter are in Canadian dollars, will be made in accordance with paragraph I.1 and I.2 hereof and are subject to any applicable withholding taxes and statutory or authorized deductions.
2. **Acknowledgement.** You agree that the arrangements set out in this letter fully satisfy the Company’s and all of its affiliates’ obligations to you in respect of the cessation of your employment and the cessation of your relationship

with the Company, and you will not be entitled to further notice of termination, indemnification or severance pay under the *Civil Code of Québec* (the “CCQ”) or contract.

3. **Severability.** If any provision of this letter or its application in a circumstance is restricted, prohibited or unenforceable, the provision shall be ineffective only to the extent of the restriction, prohibition or unenforceability without invalidating the remaining provisions of this letter and without affecting its application to other circumstances.
4. **Enurement.** This letter, which includes the full and final release attached hereto as Schedule “A”, shall enure to the benefit of and be binding upon you, the Company and each of our respective successors and assigns, including, without limitation, your heirs, executors, administrators and personal representatives.
5. **No Admission of Liability.** You understand and agree that nothing in this letter shall be deemed to be an admission of liability on the part of the Company and, in fact, such liability is specifically denied by the Company. Similarly, we understand and agree that nothing in this letter shall be deemed to be an admission of liability on your part or any of your affiliates, and, in fact such liability is specifically denied by you and your affiliates.
6. **Entire Agreement.** This letter is the full agreement of the parties, replaces any prior agreement between the parties hereto and may not be modified except in writing and executed by all parties.
7. **Legal.** The present document constitutes a transaction pursuant to Section 2631 and following of the CCQ. The parties have expressly requested that the present document be drafted in English. *Les parties ont expressément demandé que le présent document soit rédigé en anglais.*

[Signature page follows.]

On behalf of everyone at the Company, let us once again thank you for your service. We wish you well in your future endeavours.

Sincerely yours,

DAVIDSTEAM INC.

Per: (s) Maurice Tousson

Maurice Tousson, Chairman of the Board

And

Per: (s) Lorenzo Salvaggio

Lorenzo Salvaggio, Board member

The undersigned has read and understands and agrees to the terms of the agreement set forth in this letter. Sylvain Toutant also agrees to sign and to be bound by the terms of the attached release form. The undersigned acknowledges that he has been given the opportunity to obtain independent legal advice with respect to this letter and attached release form.

October 20, 2016

Date

(s) Sylvain Toutant

Sylvain Toutant

SCHEDULE "A"

FULL AND FINAL RELEASE

I, Sylvain Toutant, on my own behalf and on behalf of all of my related persons and entities (including 9222-2116 Québec Inc.), in exchange for the consideration of the terms described in the attached agreement dated October 20, 2016 (the "**Letter Agreement**"), and other good and valuable consideration the sufficiency of which is hereby expressly acknowledged, agree, represent and warrant that:

1. I remise, release, acquit and forever discharge DavidsTea Inc. and all of its predecessor, subsidiary, parent, related, affiliated and successor entities, companies or partnerships (collectively, the "**Companies**") and all present and former shareholders, officers, directors, employees, representatives and agents of the Companies (collectively, the "**Released Individuals**") (the Companies and the Released Individuals are collectively referred to as the "**Releasees**") of and from all actions, causes of action, applications, suits, complaints, liabilities, debts, demands, damages, costs, torts (both intentional and unintentional), dues, bonds, accounts, covenants, contracts, statutory rights and all or any claims whatsoever that exist or may exist which I or we ever had, now have or which I can, shall or may hereafter have for or by reason of any cause, matter or thing whatsoever (collectively, "**Claims**"), including without limitation, all or any Claims in respect of: (a) my hiring, engagement, relationship or employment by any of the Releasees; (b) the cessation of such employment, engagement or relationship; (c) any benefits provided to me or which should have been provided to me during my employment, engagement or relationship or subsequent to the cessation of my employment, engagement or relationship; and (d) all past, present or future payments from any and all compensation or incentive programs of the Companies save and except for (i) the obligations and undertakings of the Companies towards Sylvain Toutant set out in the Letter Agreement (including the schedules thereto) and (ii) to the extent the applicability of such release of Claims may in any way invalidate the Companies' directors and officers liability insurance policy as it pertains to Sylvain Toutant. For greater certainty, other than the options or the shares described in paragraphs I.3 and I.4 of the Letter Agreement, I neither own nor have any interest in any shares, options, securities or other equity interest in the Companies.
2. Except for (i) the obligations and undertakings of the Companies towards Sylvain Toutant set out in the Letter Agreement (including the schedules thereto) and (ii) to the extent the applicability of such release of Claims may in any way invalidate the Companies' directors and officers liability insurance policy as it pertains to Sylvain Toutant, I have no further Claim against the Releasees in respect of my employment, engagement or relationship or the cessation thereof including, without limitation, any complaints of reprisal or retaliation or claims for specific performance, damages, reinstatement, wages, notice of termination, pay in lieu of such notice, severance pay, perquisites, expenses, pension contributions, retirement savings account contributions, allowances, benefits, retirement benefits, arrangements in respect of equity in the Companies, bonus or other incentive compensation, interest, vacation pay, overtime pay, holiday pay or any other Claims whether under contract, the common law, the civil law, equity, any policy of any of the Companies, regulation or statute, including without limitation: any applicable employment standards legislation, as amended or replaced, including the Act Respecting Labour Standards (Québec) (all such legislation referred to as the "**ARLS**"), the Civil Code of Québec, the Pay Equity Act (Québec), the Supplemental Pension Plans Act (Québec), the Workers Compensation Act (Québec), the Act Respecting Occupational Health and Safety (Québec), or any other similar legislation. I specifically have no further claims, rights to arbitration, complaints or recourse under Sections 122, 122.1, 123, 123.1, 123.6 and 124 of the ARLS.

3. I have had the opportunity to discuss or otherwise canvass with my legal counsel any and all human rights complaints, concerns, issues or potential applications arising out of or in respect of my employment and the cessation of my employment and I and we hereby release the Releasees from any and all claims under the *Charter of Human Rights and Freedoms* (Québec) (the “**Québec Charter**”) in respect of my employment, engagement or relationship and/or the cessation thereof, and I am aware of my rights under the Québec Charter and I hereby represent and acknowledge that I am not asserting any rights or advancing a human rights claim, application or complaint.
4. Provided (i) the Companies do not breach their obligations and undertakings towards Sylvain Toutant set out in the Letter Agreement (including the schedules thereto), and (ii) to the extent the applicability of such release of Claims may invalidate the Companies’ directors and officers liability insurance policy as it pertains to Sylvain Toutant, I will not make any Claim or threaten, commence, participate in, take or continue any proceedings in any jurisdiction against the Releasees in respect of any matter covered by this Full and Final Release. I also agree not to make any Claim or threaten, commence, participate in, take or continue any proceedings in any jurisdiction against any person, corporation or other entity who or which might claim contribution, indemnity or any other relief from any of the Releasees.
5. If I make any Claim or threaten, commence, participate in, take or continue any proceedings in any jurisdiction against the Releasees in respect of any Claim for or by reason of any cause, matter or thing, this Full and Final Release may be raised as a complete bar to any such Claim or proceedings. I further agree that commencing any proceedings against any of the Releasees, including any complaint under the ARLS or the Québec Charter, would contravene my representations in this Full and Final Release and cause irreparable harm to my relationship of trust with the Companies, provided, in all cases set forth above, (i) the Companies have not breached their obligations and undertakings towards Sylvain Toutant set out in the Letter Agreement (including the schedules thereto), and (ii) to the extent the applicability of such release of Claims may invalidate the Companies’ directors and officers liability insurance policy as it pertains to Sylvain Toutant.
6. I will indemnify and save harmless the Releasees from and against all Claims, charges, penalties, interest or income or other taxes made or assessed by any Canadian federal, provincial or other governmental or public department, agency or entity, including without limitation the Receiver General for Canada, the Canada Revenue Agency, Revenu Québec and the Régie des rentes du Québec, under the Income Tax Act (Canada), the Taxation Act (Québec), the Canada Pension Plan (Canada), the Employment Insurance Act (Canada) or any other statute or regulation, in respect of any failure on the part of the Releasees to withhold any taxes, premiums, payments, benefit overpayments, levies or other amounts from all or any part of the payments set out in the Letter Agreement or any wages or other amounts paid to me during my employment or in respect of any amounts including penalties and interest payable by the Releasees in respect of my employment, engagement or relationship or under the Letter Agreement.
7. I will maintain the terms of the Letter Agreement and this Full and Final Release in strict confidence and will not disclose such terms to any person, except to my immediate family and to the extent that such disclosure may be required by law or to permit me to obtain tax planning, legal or similar advice. I covenant that any of the members of my immediate family and my advisors to whom I disclose the terms of the Letter Agreement and/or this Full and Final Release will in turn agree to be bound by this same non-disclosure obligation and that any disclosure of the terms of this Letter Agreement and/or Full and Final Release by any of them will be considered a breach of the Letter Agreement and Full and Final Release by me.

8. All of the foregoing shall enure to the benefit of the Releasees, their successors and assigns, and be binding upon me and my respective heirs, executors, administrators, successors and assigns.
9. The present document constitutes a transaction pursuant to Section 2631 and following of the *Civil Code of Québec*. I acknowledge and agree that the present release was drafted in the English language at the wish of all the parties thereto. *Je reconnais et accepte que la présente convention a été rédigée en langue anglaise à la demande expresse de toutes les parties y afférentes.*

I, on my own behalf and on behalf of all of my related persons and entities (including 9222-2116 Québec Inc.), represent that I have had an opportunity to obtain independent legal advice in respect of the Letter Agreement and this Full and Final Release. I, on my own behalf and on behalf of all of my related persons and entities (including 9222-2116 Québec Inc.), represent that I understand that this Full and Final Release contains a full and final release of all claims that I have or may have against the Releasees and that there is no admission of liability on the part of the Releasees and that any such liability is denied. I, on my own behalf and on behalf of all of my related persons and entities (including 9222-2116 Québec Inc.), represent that I am executing this Full and Final Release freely and voluntarily.

SIGNED in the presence of:

(s) Louise Poirier
WITNESS SIGNATURE

Louise Poirier
PRINT NAME OF WITNESS

(s) Sylvain Toutant
Sylvain Toutant

DATE October 20, 2016

9222-2116 QUÉBEC INC.

Per: (s) Sylvain Toutant
SYLVAIN TOUTANT

DATE : October 20, 2016

SCHEDULE "B"

CONFIDENTIALITY

- (a) **General.** Sylvain Toutant agrees not to use, sell, circulate or otherwise distribute or divulge to any person or entity, or in any way disclose to any person, entity or the public in general, any Confidential Information (as defined below) for a period of 24 months after the Effective Date.

"**Confidential Information**" means all information, howsoever received by Sylvain Toutant relating directly or indirectly to the business of the Company, whether from, through or pertaining to the Company or any of its affiliates, and in whatever form (whether oral, written, machine readable, digital, electronic or otherwise); provided, however, that the term "Confidential Information" will not include information which: (i) is, demonstrably, in the public domain, without any fault or responsibility on Sylvain Toutant's part; (ii) after disclosure to him, is lawfully received by Sylvain Toutant from another person who is lawfully in possession of such Confidential Information and such other person was not restricted from disclosing said information to Sylvain Toutant; (iii) is, demonstrably, independently developed by Sylvain Toutant through persons who have not had access to, or knowledge of, the Confidential Information; or (iv) is approved by the Company for disclosure prior to its actual disclosure.

- (b) **Trade Secrets.** Notwithstanding Section 1(a), Sylvain Toutant shall not, at any time, whether during the term of, or following the termination for any reason of, this Letter Agreement, disclose a trade secret of the Company or of any of its affiliates.
- (c) **Works.** Any document or work assembled or composed by Sylvain Toutant which contains Confidential Information shall constitute and be treated as Confidential Information. He shall not publish or divulge, or allow the publication or disclosure, of any material containing Confidential Information without the prior written consent to such effect of the Company.
- (d) **Property.** Confidential Information and the documents, works, instruments or other medium containing Confidential Information shall remain the property of the Company and be returned immediately to the Company upon request.
- (e) **Intellectual Property.** To the extent not already done, Sylvain Toutant hereby assigns and transfers to the Company, all right, title and interest in and to all inventions, works, discoveries, improvements and innovations developed or created by Sylvain Toutant either alone or jointly with others, in the course of Sylvain Toutant's employment with the Company and in any way relating to the business and/or the operations and affairs of the Company and its affiliates, together with all intellectual property rights residing therein or related thereto including, without limitation, patents, copyrights, industrial designs, trademarks and trade secrets as well as any applications or registrations filed or obtained thereon (the "**Intellectual Property**") and hereby waives any and all author's, moral, and proprietary rights that Sylvain Toutant may now or in the future have in any such Intellectual Property developed in the course of his employment with the Company or its predecessors.
- (f) **Ongoing Cooperation.** For a period of 18 months after the Effective Date, Sylvain Toutant shall, upon reasonable notice by the Company, furnish such information and proper

assistance to the Company as may be reasonably required by the Company in order to effect an efficient and orderly transition or otherwise as may be necessary for the Company's business and operations and, in doing so, shall be reasonably compensated by the Company for his time and for any out of pocket expenses (following receipt by the Company of adequate documentation of such expenses) reasonably incurred in connection therewith.

- (g) **Governmental Request.** Nothing in this Letter Agreement shall prevent the disclosure of Confidential Information where such disclosure must be made in response to the formal request of a governmental body, agency or a court of law; in each case, of competent jurisdiction, but Sylvain Toutant shall inform the Company of such request immediately, and in any case prior to any such disclosure, in order, thereby, to allow the Company to take the appropriate measures to contest such request for disclosure if it so decides. Sylvain Toutant shall fully cooperate with the Company in its efforts to contest such request for disclosure and, in doing so, shall be reasonably compensated by the Company for his time and for any out of pocket expenses (following receipt by the Company of adequate documentation of such expenses) reasonably incurred in connection therewith.

NON-COMPETITION

- (h) **Prohibition.** Sylvain Toutant shall not, for a period of 18 months after the Effective Date, on his own behalf or on behalf of any other person or entity, whether directly or indirectly, in any material capacity, alone, through or in connection with any person or entity, carry on, be engaged in or employed by, or have any material financial or other interest in, anywhere in North America, the United Kingdom, France, Germany or India, (i) any endeavour, activity, or business, which is (in whole or in part) in direct competition with the Business of the Company, or (ii) any current or past suppliers of the Company in respect of the Business of the Company.

For the purposes of this Letter Agreement, the term “**Business**” shall mean the tea business.

OBLIGATION OF NON-SOLICITATION

- (i) **Prohibition.** Sylvain Toutant shall not, for a period of 18 months after the Effective Date on his own behalf or on behalf of any other person or entity, whether directly or indirectly, in any capacity whatsoever, alone, through or in connection with any person or entity:
- A. offer employment to or solicit the employment, services or other engagement of any individual who is employed or engaged by the Company or of any of its affiliates; or
 - B. persuade or attempt to persuade any customers or suppliers of the Company or of any of its affiliates existing as at the Effective Date, to discontinue or materially alter the relationship with any of the foregoing of such person or entity.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-205058) pertaining to the Amended and Restated Equity Incentive Plan and 2015 Omnibus Equity Incentive Plan of DAVIDsTEA Inc. of our report dated April 12, 2017 with respect to the consolidated financial statements of DAVIDsTEA Inc. included in this Annual Report (Form 10-K) for the year ended January 28, 2017.

/s/Ernst & Young LLP

Montreal, Canada

April 12, 2017

⁽¹⁾ CPA auditor, CA, public accountancy permit no. A112179

**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 annual report on Form 10-K 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 the 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 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - 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
April 12, 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, Luis Borgen, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K 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 the 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 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 function):
 - 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
April 12, 2017

/s/ Luis Borgen
Luis Borgen
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of DAVIDsTEA Inc. (the “Company”), does hereby certify that to my knowledge:

1. the Company’s Form 10-K for the fiscal year ended January 28, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Company’s Form 10-K for the fiscal year ended January 28, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joel Silver

Name: Joel Silver

Title: President and Chief Executive Officer

Dated: April 12, 2017

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of DAVIDsTEA Inc. (the “Company”), does hereby certify that to my knowledge:

1. the Company’s Form 10-K for the fiscal year ended January 28, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Company’s Form 10-K for the fiscal year ended January 28, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Luis Borgen

Name: Luis Borgen

Title: Chief Financial Officer

Dated: April 12, 2017