

Dollarama Inc.

Condensed Interim Consolidated Financial
Statements

**For the 13-week and 39-week periods ended
October 28, 2018 and October 29, 2017**

(Unaudited, expressed in thousands of Canadian
dollars, unless otherwise noted)

Dollarama Inc.

Interim Consolidated Statement of Financial Position as at
(Unaudited, expressed in thousands of Canadian dollars)

	Note	October 28, 2018 \$	January 28, 2018 \$
Assets			
Current assets			
Cash		78,843	54,844
Accounts receivable		34,753	15,263
Prepaid expenses		8,110	8,649
Prepaid income taxes		1,661	-
Inventories		570,955	490,927
Derivative financial instruments	7	13,818	286
		<u>708,140</u>	<u>569,969</u>
Non-current assets			
Property, plant and equipment	6	557,590	490,988
Intangible assets		148,472	145,600
Goodwill		<u>727,782</u>	<u>727,782</u>
Total assets		<u>2,141,984</u>	<u>1,934,339</u>
Liabilities and shareholders' deficit			
Current liabilities			
Accounts payable and accrued liabilities		213,640	228,362
Dividend payable		12,935	12,180
Derivative financial instruments	7	-	35,720
Income taxes payable		-	39,491
Finance lease obligations	10	512	-
Current portion of long-term debt	8	<u>414,243</u>	<u>405,192</u>
		641,330	720,945
Non-current liabilities			
Long-term debt	8	1,484,761	1,260,459
Finance lease obligations	10	3,474	-
Deferred rent and lease inducements		97,041	92,633
Deferred income taxes		<u>131,844</u>	<u>112,660</u>
Total liabilities		<u>2,358,450</u>	<u>2,186,697</u>
Commitments	10		
Shareholders' deficit			
Share capital	9	413,289	415,787
Contributed surplus	9	30,992	27,699
Deficit		(673,003)	(663,421)
Accumulated other comprehensive income (loss)		<u>12,256</u>	<u>(32,423)</u>
Total shareholders' deficit		<u>(216,466)</u>	<u>(252,358)</u>
Total liabilities and shareholders' deficit		<u>2,141,984</u>	<u>1,934,339</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Dollarama Inc.

Interim Consolidated Statement of Changes in Shareholders' Deficit

For the 39-week periods ended

(Unaudited, expressed in thousands of Canadian dollars, except share amounts)

	Note	Number of common shares ⁽¹⁾	Share capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance – January 29, 2017		345,154,047	420,266	24,321	(342,957)	(1,346)	100,284
Net earnings		-	-	-	356,582	-	356,582
Other comprehensive loss		-	-	-	-	(17,863)	(17,863)
Total comprehensive income		-	-	-	356,582	(17,863)	338,719
Dividends declared		-	-	-	(37,340)	-	(37,340)
Repurchase and cancellation of common shares	9	(11,036,520)	(13,444)	-	(420,439)	-	(433,883)
Share-based compensation	9	-	-	5,015	-	-	5,015
Issuance of common shares	9	927,150	11,906	-	-	-	11,906
Reclassification for the exercise of share options		-	2,575	(2,575)	-	-	-
Balance – October 29, 2017		335,044,677	421,303	26,761	(444,154)	(19,209)	(15,299)
Balance – January 28, 2018		327,977,577	415,787	27,699	(663,421)	(32,423)	(252,358)
Net earnings		-	-	-	376,894	-	376,894
Other comprehensive income		-	-	-	-	31,211	31,211
Total comprehensive income		-	-	-	376,894	31,211	408,105
IFRS 9 transition adjustment	4	-	-	-	-	8,646	8,646
Transfer of realized cash flow hedge losses to inventory		-	-	-	-	4,822	4,822
Dividends declared		-	-	-	(39,116)	-	(39,116)
Repurchase and cancellation of common shares	9	(8,450,957)	(10,722)	-	(347,360)	-	(358,082)
Share-based compensation	9	-	-	4,720	-	-	4,720
Issuance of common shares	9	418,550	6,797	-	-	-	6,797
Reclassification for the exercise of share options		-	1,427	(1,427)	-	-	-
Balance – October 28, 2018		319,945,170	413,289	30,992	(673,003)	12,256	(216,466)

⁽¹⁾ Numbers of common shares as at January 29, 2017, October 29, 2017 and January 28, 2018, including changes in the share capital between these three dates, reflect the retrospective application of the Share Split (defined under Note 9).

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Dollarama Inc.

Interim Consolidated Statement of Net Earnings and Comprehensive Income (Loss)

For the 13-week and 39-week periods ended

(Unaudited, expressed in thousands of Canadian dollars, except share and per share amounts)

	Note	13-week periods ended		39-week periods ended	
		October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
		\$	\$	\$	\$
Sales		864,267	810,583	2,488,789	2,328,015
Cost of sales	14	<u>528,411</u>	<u>485,703</u>	<u>1,523,869</u>	<u>1,415,816</u>
Gross profit		335,856	324,880	964,920	912,199
General, administrative and store operating expenses		121,227	117,630	354,282	339,887
Depreciation and amortization	14	<u>19,629</u>	<u>17,999</u>	<u>57,495</u>	<u>51,845</u>
Operating income		195,000	189,251	553,143	520,467
Net financing costs	14	<u>11,443</u>	<u>10,154</u>	<u>34,178</u>	<u>29,621</u>
Earnings before income taxes		183,557	179,097	518,965	490,846
Income taxes	11	<u>50,010</u>	<u>49,005</u>	<u>142,071</u>	<u>134,264</u>
Net earnings		<u>133,547</u>	<u>130,092</u>	<u>376,894</u>	<u>356,582</u>
Other comprehensive income					
<i>Items to be reclassified subsequently to net earnings</i>					
Unrealized gain (loss) on derivative financial instruments, net of reclassification adjustment		-	22,214	-	(24,522)
Unrealized gain on derivative financial instruments not subject to basis adjustments		1,087	-	2,022	-
<i>Items that will not be reclassified subsequently to net earnings</i>					
Unrealized gain on derivative financial instruments subject to basis adjustments	4	4,167	-	40,625	-
Income taxes recovery (expenses) relating to components of other comprehensive income		<u>(1,591)</u>	<u>(5,915)</u>	<u>(11,436)</u>	<u>6,659</u>
Total other comprehensive income (loss), net of income taxes		<u>3,663</u>	<u>16,299</u>	<u>31,211</u>	<u>(17,863)</u>
Total comprehensive income		<u>137,210</u>	<u>146,391</u>	<u>408,105</u>	<u>338,719</u>
Earnings per common share					
Basic net earnings per common share <i>(restated)</i> ⁽¹⁾	12	\$0.41	\$0.39	\$1.15	\$1.05
Diluted net earnings per common share <i>(restated)</i> ⁽¹⁾	12	\$0.41	\$0.38	\$1.14	\$1.04
Weighted average number of common shares outstanding (thousands) (restated) ⁽¹⁾	12	325,032	336,573	326,752	339,909
Weighted average number of diluted common shares outstanding (thousands) (restated) ⁽¹⁾	12	328,905	340,803	330,992	344,001

⁽¹⁾ Numbers of common shares and amounts per common share as at October 29, 2017 reflect the retrospective application of the Share Split (see Note 9).

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Dollarama Inc.

Interim Consolidated Statement of Cash Flows

For the 13-week and 39-week periods ended

(Unaudited, expressed in thousands of Canadian dollars)

		13-week periods ended		39-week periods ended	
	Note	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
		\$	\$	\$	\$
Operating activities					
Net earnings		133,547	130,092	376,894	356,582
Adjustments to reconcile net earnings to net cash generated from operating activities:					
Depreciation of property, plant and equipment and amortization of intangible assets	14	19,629	17,999	57,495	51,845
Amortization of deferred tenant allowances		(1,488)	(1,294)	(4,236)	(3,789)
Amortization of deferred leasing costs		117	120	355	363
Amortization of debt issue costs		567	492	1,699	1,533
Amortization of bond lock loss		23	-	68	-
Transfer of realized cash flow hedge losses to inventory	4	-	-	8,646	-
Recognition of realized losses on foreign exchange contracts	7	-	(1,445)	-	(3,496)
Cash settlement of gains on foreign exchange contracts		-	(11,373)	-	(1,267)
Deferred lease inducements		1,328	1,240	3,537	3,721
Deferred tenant allowances		2,961	2,694	5,107	6,884
Share-based compensation	9	1,512	1,676	4,720	5,015
Interest payment on finance lease		27	-	88	-
Financing costs on long-term debt		7,626	7,675	9,051	9,132
Deferred income taxes		3,687	8,141	5,896	6,383
Loss (gain) on disposal of assets		(153)	126	(30)	181
		169,383	156,143	469,290	433,087
Changes in non-cash working capital components	7,15	(76,023)	(35,490)	(164,656)	(48,059)
Net cash generated from operating activities		93,360	120,653	304,634	385,028
Investing activities					
Additions to property, plant and equipment		(29,686)	(24,620)	(110,868)	(66,920)
Additions to intangible assets		(3,284)	(6,800)	(13,210)	(13,577)
Proceeds from disposal of property, plant and equipment		922	184	1,164	544
Net cash used in investing activities		(32,048)	(31,236)	(122,914)	(79,953)
Financing activities					
Proceeds from long-term debt issued (the Floating Rate Notes and the 2.203% Fixed Rate Notes)	8	-	-	300,000	550,000
Proceeds (repayments) of Credit Facility	8	115,000	35,000	(76,000)	(95,000)
Repayment of Series 1 Floating Rate Notes		-	-	-	(275,000)
Payment of debt issue costs		-	-	(1,397)	(2,438)
Repayment of finance lease		(149)	-	(481)	-
Issuance of common shares		3,215	1,477	6,797	11,906
Dividends paid		(13,073)	(12,461)	(38,362)	(36,599)
Repurchase and cancellation of common shares	9	(269,165)	(115,403)	(348,278)	(442,703)
Net cash used in financing activities		(164,172)	(91,387)	(157,721)	(289,834)
Increase (decrease) in cash		(102,860)	(1,970)	23,999	15,241
Cash – beginning of period		181,703	79,226	54,844	62,015
Cash – end of period		78,843	77,256	78,843	77,256

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

October 28, 2018

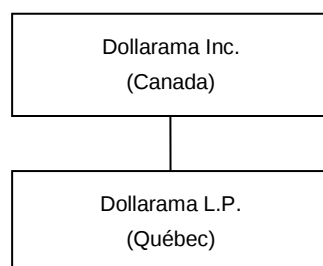
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

1 General information

Dollarama Inc. (the “Corporation”) was formed on October 20, 2004 under the Canada Business Corporations Act. The Corporation operates dollar stores in Canada that sell all items for \$4.00 or less. As at October 28, 2018, the Corporation maintains retail operations in every Canadian province. The Corporation’s corporate headquarters, distribution centre and warehouses are located in the Montreal area. The Corporation is listed on the Toronto Stock Exchange (“TSX”) under the symbol “DOL” and is incorporated and domiciled in Canada.

The Corporation’s head and registered office is located at 5805 Royalmount Avenue, Montreal, Quebec, H4P 0A1.

As at October 28, 2018, the significant entities within the legal structure of the Corporation are as follows:



Dollarama L.P. operates the chain of stores and performs related logistical and administrative support activities.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors for issue on December 6, 2018.

The number of common shares in these unaudited condensed interim consolidated financial statements, as at January 29, 2017, October 29, 2017 and January 28, 2018, including changes in the share capital between these three dates, reflect the retrospective application of the Share Split (see Note 9).

The Corporation prepares its condensed interim consolidated financial statements in accordance with generally accepted accounting principles in Canada (“GAAP”) as set out in the CPA Canada Handbook – Accounting under Part I, which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, “Interim Financial Reporting”. In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation’s audited annual consolidated financial statements for the year ended January 28, 2018 (“Fiscal 2018”), which have been prepared in accordance with IFRS as issued by the IASB. In management’s opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

October 28, 2018

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

3 Summary of significant accounting policies

Except as described in Note 4 below, these unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as outlined in Note 3 to the Fiscal 2018 audited consolidated financial statements.

4 Significant new accounting standards

a) New and amended accounting standards adopted

IFRS 9 – Financial instruments

In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” concerning classification and measurement, impairment and hedge accounting, to supersede IAS 39, “Financial Instruments: Recognition and Measurement”. The Corporation adopted the requirements of IFRS 9 on January 29, 2018 using the modified retrospective method as permitted by IFRS 9. On the transition date, the Corporation applied the new hedge accounting requirements to all existing qualifying hedge relationships. IFRS 9 introduces changes to the cash flow hedge accounting model and eliminates the accounting policy choice provided by IAS 39 for the hedging of a forecasted transaction that results in the recognition of a non-financial asset or liability. Below is the Corporation’s method of accounting for financial instruments under IFRS 9.

The adoption of IFRS 9 did not have a material impact on the Corporation’s consolidated financial statements.

Classification

On initial recognition, the Corporation determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through other comprehensive income (FVOCI) or through profit or loss (FVTPL)

The classification under IFRS 9 is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

October 28, 2018

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

4 Significant new accounting standards (cont'd)

Equity investments held for trading are classified as FVTPL. For all other equity investments that are not held for trading, the Corporation may irrevocably elect, on initial recognition, to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as instruments held for trading or derivatives), or if the Corporation has chosen to evaluate them at FVTPL.

The table below summarizes the classification and measurement of the Corporation's financial instruments accounted for under IFRS 9 compared to the Corporation's previous classification under IAS 39.

	IAS 39 Classification	IFRS 9 Classification
Assets		
Cash	Loans and receivables - Amortized cost	Amortized cost
Accounts receivable	Loans and receivables - Amortized cost	Amortized cost
Derivative financial instruments	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)
Liabilities		
Trade payables and accrued liabilities	Other financial liabilities - Amortized cost	Amortized cost
Dividend payable	Other financial liabilities - Amortized cost	Amortized cost
Long-term debt	Other financial liabilities - Amortized cost	Amortized cost
Derivative financial instruments	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)

Evaluation

Financial instruments at amortized cost

Financial instruments at amortized cost are initially measured at fair value and subsequently, at amortized cost, using the effective interest method, less any impairment loss. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of net earnings and comprehensive income.

Financial instruments at fair value

Financial instruments are initially and subsequently measured at fair value and transaction costs are accounted for in the consolidated statement of net earnings and comprehensive income. The effective portion of gains and losses on hedging instruments is accounted for in other comprehensive income in the period in which they occur. When the Corporation elects to measure a financial liability at FVTPL, gains or losses related to the Corporation's own credit risk are accounted for in the consolidated statement of net earnings and comprehensive income.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

October 28, 2018

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

4 Significant new accounting standards (cont'd)

Impairment

The Corporation prospectively estimates the expected credit losses associated with debt instruments accounted for at amortized cost or FVOCI. The impairment methodology used depends on whether there is a significant increase in the credit risk or not. For trade receivables, the Corporation measures loss allowances at an amount equal to lifetime expected credit loss (ECL) as allowed by IFRS 9 under the simplified method.

Derecognition

Financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred. Gains and losses from the derecognition are recognized in the consolidated statement of net earnings and comprehensive income.

Financial liabilities

The Corporation derecognizes a financial liability when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of net earnings and comprehensive income.

Hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in earnings. Under IFRS 9, for cash flow hedges of a forecasted transaction which results in the recognition of a non-financial item, such as inventory, the carrying value of that item must be adjusted for the accumulated gains or losses recognized directly in shareholders' deficit. Subsequently, the accumulated gains and losses recorded in inventory (as a result of the basis adjustment) will be recorded in the consolidated statement of net earnings and comprehensive income in the same period or periods during which the hedged expected future cash flows affect the consolidated statement of net earnings and comprehensive income (through cost of sales).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders' deficit at that time remains in shareholders' deficit and is recognized when the forecasted transaction is ultimately recognized in earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' deficit is immediately transferred to earnings.

Foreign exchange forward contracts are designated as cash flow hedges of specific anticipated transactions.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

October 28, 2018

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

4 Significant new accounting standards (cont'd)

For cash flow hedges associated with interest rate risk such as a bond forward sale, the derivative is recorded on the consolidated statement of financial position at fair value. The effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, and reclassified to net earnings over the same period as the hedged interest payments are recorded in net earnings.

As a result of the adoption of IFRS 9, the Corporation transferred on January 29, 2018 an amount of \$8,646 of accumulated losses previously recognized in accumulated other comprehensive income (loss) and included that amount directly in the carrying amount of the inventory (referred to as 'basis adjustment'). This basis adjustment was not a reclassification adjustment and did not affect the Corporation's consolidated statement of net earnings and comprehensive income (loss). Furthermore, for the 13-week and 39-week periods ended October 28, 2018, the fair value gains of \$4,167 and \$40,625, respectively, on foreign exchange forward contracts subject to cash flow hedge accounting that will be subsequently basis adjusted onto the initial carrying amount of non-financial hedged items (foreign currency denominated inventory purchases), have been presented as amounts that will not be subsequently reclassified to net earnings.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces all previous revenue recognition standards, including IAS 18, "Revenue". The Corporation adopted the requirements of IFRS 15 on January 29, 2018, using the modified retrospective method as permitted by IFRS 15.

The adoption of IFRS 15 did not result in any adjustments or in any change in the recognition of revenues compared to prior periods and therefore, no comparative figures have been restated.

IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer. A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;
2. Identify the separate performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to separate performance obligations; and
5. Recognize revenue when (or as) each performance obligation is satisfied.

All sales are final. Revenue is shown net of sales tax and discounts. Gift cards sold are recorded as a liability, and revenue is recognized when gift cards are redeemed.

The Corporation may enter into arrangements with third parties for the sale of products to customers. When the Corporation acts as the principal in these arrangements, it recognizes revenue based on the amounts billed to customers. Otherwise, the Corporation recognizes the net amount that it retains as revenue.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. The revenues of the Corporation come from the sale of products that are recognized at a point in time. Sales of products in the consolidated statement of net earnings and comprehensive income are recognized by the Corporation when control of the goods has been transferred, being when the customer tenders payment and takes possession of the merchandise and that all obligations have been fulfilled.

Dollarama Inc.

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October 28, 2018

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

4 Significant new accounting standards (cont'd)

b) Accounting standards and amendments issued but not yet adopted

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, "Leases", which will replace IAS 17, "Leases". The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Corporation has significant contractual obligations in the form of operating leases (Note 12 to the Fiscal 2018 audited consolidated financial statements) under IAS 17, there will be a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with lease arrangements.

The following table outlines the key areas that will be impacted by the adoption of IFRS 16.

Impacted areas of the business	Analysis	Impact
Financial reporting	The analysis includes which contracts will be in scope as well as the options available under the new standard such as whether to early adopt, the two recognition and measurement exemptions and whether to apply the new standard on a full retrospective application in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> or choose the "modified retrospective approach".	The Corporation is in the process of analyzing the full impact of the adoption of IFRS 16 on the Corporation's consolidated statement of financial position and consolidated statement of net earnings and comprehensive income (loss). In addition, the Corporation is working with a third party provider of advisory services. As at October 28, 2018, the vast majority of the operating leases disclosed in Note 10 to these unaudited condensed interim consolidated financial statements are in scope of IFRS 16.
Information systems	The Corporation is analyzing the need to make changes within its information systems environment to optimize the management of more than 1,000 leases that will fall within the scope of the new standard.	The Corporation has chosen an IT solution for the eventual recognition and measurement of leases in scope. Integration testing began in the third quarter of the fiscal year ended January 28, 2018 and was ongoing during the third quarter of the current fiscal year ending February 3, 2019.
Internal controls	The Corporation will be performing an analysis of the changes to the control environment as a result of the adoption of IFRS 16.	The design of new controls for IFRS 16 by the Corporation began towards the end of the second quarter of the current fiscal year ending February 3, 2019, and remains ongoing.
Stakeholders	The Corporation will be performing an analysis of the impact on the disclosure to its stakeholders as a result of the adoption of IFRS 16.	The Corporation continues to communicate the impact of IFRS 16 to internal stakeholders.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

5 Critical accounting estimates and judgments

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

In preparing these condensed interim consolidated financial statements, the significant estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for Fiscal 2018 (refer to Note 5 of the Fiscal 2018 audited consolidated financial statements).

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

6 Property, plant and equipment

	Land ⁽¹⁾	Buildings ⁽¹⁾	Construction in progress ⁽²⁾	Store and warehouse equipment	Computer equipment	Vehicles	Leasehold improvements	Total
	\$	\$		\$	\$	\$	\$	\$
Cost								
Balance January 28, 2018	45,366	36,508	-	401,436	38,821	4,842	325,819	852,792
Additions	19,440	22,480	12,582	25,721	7,100	1,369	26,555	115,247
Transfers ⁽³⁾	-	1,255	-	-	-	-	(1,255)	-
Dispositions	-	-	-	(182)	-	(1,033)	(1,906)	(3,121)
Balance October 28, 2018	64,806	60,243	12,582	426,975	45,921	5,178	349,213	964,918
Accumulated depreciation								
Balance January 28, 2018	-	851	-	219,950	17,259	1,716	122,028	361,804
Depreciation	-	1,111	-	22,343	6,495	740	16,823	47,512
Dispositions	-	-	-	(43)	-	(616)	(1,329)	(1,988)
Balance October 28, 2018	-	1,962	-	242,250	23,754	1,840	137,522	407,328
Net book value								
Balance October 28, 2018	64,806	58,281	12,582	184,725	22,167	3,338	211,691	557,590
Cost								
Balance January 29, 2017	22,144	45,779	-	350,325	33,892	4,565	286,695	743,400
Additions	23,222	3,213	-	39,599	4,766	2,001	39,985	112,786
Transfers ⁽⁴⁾	-	(12,484)	-	12,152	266	-	-	(66)
Dispositions	-	-	-	(640)	(103)	(1,724)	(861)	(3,328)
Balance January 28, 2018	45,366	36,508	-	401,436	38,821	4,842	325,819	852,792
Accumulated depreciation								
Balance January 29, 2017	-	-	-	192,620	9,593	1,669	102,429	306,311
Depreciation	-	851	-	27,970	7,766	1,115	20,216	57,918
Dispositions	-	-	-	(640)	(100)	(1,068)	(617)	(2,425)
Balance January 28, 2018	-	851	-	219,950	17,259	1,716	122,028	361,804
Net book value								
Balance January 28, 2018	45,366	35,657	-	181,486	21,562	3,126	203,791	490,988

⁽¹⁾ Additions to land and buildings in the current fiscal year ending February 3, 2019 relate to the acquisition of the previously leased distribution centre and its current expansion.

⁽²⁾ Costs associated with the expansion of the distribution centre. Recognized costs for the building construction in progress are not being depreciated because the building is not yet available for use.

⁽³⁾ Costs related to floor and roof of the acquired distribution centre totalling \$1,255 were reclassified from leasehold improvements to buildings on July 29, 2018.

⁽⁴⁾ Racking, fixtures and other equipment (including hardware and software) totalling \$12,418 were reclassified from buildings to store and warehouse equipment and to computer equipment on January 30, 2017. The balance of \$66 was reclassified from buildings to computer software on January 30, 2017.

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7 Derivative financial instruments

Fair value of financial instruments

The three levels of fair value hierarchy under which the Corporation's financial instruments are valued are the following:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

A summary of the aggregate contractual nominal value, weighted average contract rate or interest rate, statement of financial position location and estimated fair values of derivative financial instruments as at October 28, 2018 and January 28, 2018 is as follows:

	Contractual nominal value	Weighted average contract/ interest rate	Statement of financial position	Fair value - Asset (Liability)	Nature of hedging relationship
	USD/CAD	USD/CAD/ interest rate	Location	Significant other observable inputs (Level 2)	Recurring
	\$			\$	
As at October 28, 2018					
Hedging instruments					
CAD Bond forward sale contract	<u>330,000</u>	2.168%	Current assets	<u>2,307</u>	Cash flow hedge
USD Foreign exchange forward contracts	<u>524,000</u>	1.28	Current assets	<u>11,511</u>	Cash flow hedge
As at January 28, 2018					
Hedging instruments					
CAD Bond forward sale contract	<u>110,000</u>	2.186%	Current assets	<u>286</u>	Cash flow hedge
USD Foreign exchange forward contracts	<u>514,000</u>	1.30	Current liabilities	<u>(35,720)</u>	Cash flow hedge

For the 13-week and 39-week periods ended October 28, 2018, accumulated fair value losses of \$1,972 and \$14,378, respectively, on foreign exchange forward contracts recorded in the carrying value of inventory were reclassified from inventory to the consolidated statement of net earnings and comprehensive income (loss) and recorded in the cost of sales. Prior to the adoption of IFRS 9, these accumulated fair value gains or losses were reported as adjustments in the consolidated statement of cash flows to reconcile net earnings to net cash generated from operating activities. With the adoption of IFRS 9, accumulated fair value gains or losses are now recorded in inventory prior to being reclassified in the cost of sales. As a result, adjustments to the consolidated statement of cash flows are now made through changes in non-cash working capital.

For the 13-week and 39-week periods ended October 29, 2017 (prior to the adoption of IFRS 9), accumulated fair value gains of \$1,445 and \$3,496, respectively, on foreign exchange forward contracts, were reclassified from accumulated other comprehensive income (loss) to the consolidated statement of net earnings and comprehensive income and recorded in the cost of sales.

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8 Long-term debt

Long-term debt outstanding consists of the following as at:

	October 28, 2018	January 28, 2018
	\$	\$
Senior unsecured notes bearing interest at:		
Fixed annual rate of 2.203% payable in equal semi-annual instalments, maturing November 10, 2022 (the "2.203% Fixed Rate Notes")	250,000	250,000
Fixed annual rate of 2.337% payable in equal semi-annual instalments, maturing July 22, 2021 (the "2.337% Fixed Rate Notes")	525,000	525,000
Fixed annual rate of 3.095% payable in equal semi-annual instalments, maturing November 5, 2018 (the "3.095% Fixed Rate Notes", and collectively with the 2.203% Fixed Rate Notes and the 2.337% Fixed Rate Notes, the "Fixed Rate Notes")	400,000	400,000
Variable rate equal to 3-month bankers' acceptance rate (CDOR) plus 27 basis points payable quarterly, maturing February 1, 2021 (the "Series 3 Floating Rate Notes")	300,000	-
Variable rate equal to 3-month bankers' acceptance rate (CDOR) plus 59 basis points payable quarterly, maturing March 16, 2020 (the "Series 2 Floating Rate Notes", and collectively with the Series 3 Floating Rate Notes, the "Floating Rate Notes")	300,000	300,000
Unsecured revolving credit facility maturing September 29, 2023 (the "Credit Facility")	115,000	191,000
Less: Unamortized debt issue costs	(5,239)	(5,541)
Accrued interest on the Floating Rate Notes and Fixed Rate Notes	14,243	5,192
	1,899,004	1,665,651
Current portion (includes accrued interest on the Floating Rate Notes and Fixed Rate Notes)	(414,243)	(405,192)
	<u>1,484,761</u>	<u>1,260,459</u>

Fixed Rate Notes

As at October 28, 2018, the carrying value of the 2.203% Fixed Rate Notes was \$251,700 (January 28, 2018 – \$250,186). The fair value of the 2.203% Fixed Rate Notes as at October 28, 2018 was determined to be \$238,328 valued as a level 2 in the fair value hierarchy (January 28, 2018 – \$242,410). The 2.203% Fixed Rate Notes are due on November 10, 2022.

As at October 28, 2018, the carrying value of the 2.337% Fixed Rate Notes was \$526,965 (January 28, 2018 – \$523,597). The fair value of the 2.337% Fixed Rate Notes as at October 28, 2018 was determined to be \$512,516 valued as a level 2 in the fair value hierarchy (January 28, 2018 – \$519,246). The 2.337% Fixed Rate Notes are due on July 22, 2021.

As at October 28, 2018, the carrying value of the 3.095% Fixed Rate Notes was \$405,906 (January 28, 2018 – \$402,452). The fair value of the 3.095% Fixed Rate Notes as at October 28, 2018 was determined to be \$400,104 valued as a level 2 in the fair value hierarchy (January 28, 2018 – \$403,452). The 3.095% Fixed Rate Notes matured on November 5, 2018 and are presented as a current liability on the condensed interim consolidated statement of financial position as at October 28, 2018.

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8 Long-term debt (cont'd)

Floating Rate Notes

On February 1, 2018, the Corporation issued the Series 3 Floating Rates Notes, on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Series 3 Floating Rate Notes were issued at par for aggregate gross proceeds of \$300,000 and bear interest at a rate equal to the 3-month bankers' acceptance rate (CDOR) plus 27 basis points (or 0.27%), set quarterly on the 1st day of February, May, August and November of each year. Interest is payable in cash quarterly, in arrears, over the 3-year term on the 1st day of February, May, August and November of each year. As at October 28, 2018, the carrying value of the Series 3 Floating Rate Notes was \$300,749 (January 28, 2018 – n/a). The fair value of the Series 3 Floating Rate Notes as at October 28, 2018 was determined to be \$298,701 valued as a level 2 in the fair value hierarchy (January 28, 2018 – n/a). The Series 3 Floating Rate Notes are due on February 1, 2021.

As at October 28, 2018, the carrying value of the Series 2 Floating Rate Notes was \$300,353 (January 28, 2018 – \$300,066). The fair value of the Series 2 Floating Rate Notes as at October 28, 2018 was determined to be \$300,888 valued as a level 2 in the fair value hierarchy (January 28, 2018 – \$302,502). The Series 2 Floating Rate Notes are due on March 16, 2020.

Credit Facility

As at October 28, 2018, an amount of \$115,000 was outstanding under the credit facility (January 28, 2018 – \$191,000), as well as letters of credit issued for the purchase of inventories and a letter of guarantee required by the municipality in connection with the expansion of the distribution centre, which amounted to \$5,377 (January 28, 2018 – \$1,059). As at October 28, 2018, the Corporation was in compliance with all of its financial covenants.

9 Shareholders' deficit

a) Share capital

Three-for-One Share Split

On June 19, 2018, shareholders of record as at the close of business on June 14, 2018 received two additional common shares for each common share held (the "Share Split"). Ex-distribution trading in the common shares on a split-adjusted basis commenced on June 20, 2018.

Normal course issuer bid

On June 7, 2018, the Corporation announced the renewal of its normal course issuer bid set to expire on June 18, 2018 (the "2017-2018 NCIB") and received approval from the TSX to repurchase for cancellation up to 16,386,351 common shares (retrospectively restated to reflect the Share Split), representing 5.0% of the common shares issued and outstanding as at the close of markets on June 6, 2018, during the 12-month period from June 20, 2018 to June 19, 2019 (the "2018-2019 NCIB").

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October 28, 2018

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9 Shareholders' deficit

The total number of common shares repurchased for cancellation under the 2018-2019 NCIB during the 13-week period ended October 28, 2018 amounted to 7,103,616 common shares (October 29, 2017 – 2,063,100 common shares under the normal course issuer bids then in effect) for a total cash consideration of \$288,111 (October 29, 2017 – \$93,123). For the 13-week period ended October 28, 2018, the Corporation's share capital was reduced by \$9,006 (October 29, 2017 – \$2,513) and the remaining \$279,105 (October 29, 2017 – \$90,610) was accounted for as an increase in deficit.

Taking into account the Share Split, the total number of common shares repurchased for cancellation under the 2018-2019 NCIB and the normal course issuer bid previously in effect during the 39-week period ended October 28, 2018 amounted to 8,450,957 common shares (October 29, 2017 – 11,036,520 common shares under the normal course issuer bids then in effect) for a total cash consideration of \$358,082 (October 29, 2017 – \$433,883). For the 39-week period ended October 28, 2018, the Corporation's share capital was reduced by \$10,722 (October 29, 2017 – \$13,444) and the remaining \$347,360 (October 29, 2017 – \$420,439) was accounted for as an increase in deficit.

b) Contributed surplus

Share-based compensation

During the 13-week and 39-week periods ended October 28, 2018, the Corporation recognized a share-based compensation expense of \$1,512 and \$4,720 respectively (13-week and 39-week periods ended October 29, 2017 – \$1,676 and \$5,015, respectively).

Outstanding and exercisable share options for the 39-week periods ended on the dates indicated below (retrospectively restated to reflect the Share Split) are as follows:

	October 28, 2018		October 29, 2017	
	Number of share options	Weighted average exercise price (\$)	Number of share options	Weighted average exercise price (\$)
Outstanding – beginning of period	7,288,650	19.59	7,716,000	16.89
Granted	555,000	51.25	756,000	37.45
Exercised	(418,550)	16.24	(927,150)	12.84
Forfeited	(96,000)	31.57	(7,200)	13.87
Outstanding – end of period	7,329,100	22.02	7,537,650	19.46
Exercisable – end of period	4,617,100	15.85	3,538,050	14.05

Dollarama Inc.

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9 Shareholders' deficit (cont'd)

Information relating to share options outstanding and exercisable as at October 28, 2018 (retrospectively restated to reflect the Share Split) is as follows:

Range of exercise prices	Share options outstanding			Share options exercisable		
	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price (\$)	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price (\$)
\$2.92 - \$6.30	24	72,000	4.55	24	72,000	4.55
\$6.31 - \$9.00	39	489,600	7.26	39	489,600	7.26
\$9.01 - \$13.66	54	1,769,800	12.13	53	1,769,800	12.13
\$13.67 - \$18.72	66	1,645,800	14.89	65	1,231,800	14.82
\$18.73 - \$23.68	77	960,300	23.68	77	498,300	23.68
\$23.69 - \$30.20	89	1,137,000	30.20	89	417,000	30.20
\$30.21 - \$37.36	101	705,600	37.36	101	136,800	37.36
\$37.37 - \$51.25	113	549,000	51.16	106	1,800	45.60
	72	7,329,100	22.02	62	4,617,100	15.85

10 Leases and commitments

Operating leases

The basic rent and contingent rent expense of operating leases for stores, warehouses, distribution centre (until February 21, 2018, the date on which the distribution centre was acquired by the Corporation) and corporate headquarters included in the condensed interim consolidated statement of net earnings and comprehensive income (loss) for the 13-week and 39-week periods ended on the dates indicated below are as follows:

	13-week periods ended		39-week periods ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	\$	\$	\$	\$
Basic rent	46,483	44,361	140,105	132,228
Contingent rent	1,138	1,203	3,114	3,602
	47,621	45,564	143,219	135,830

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10 Leases and commitments (cont'd)

Finance lease obligation

As at October 28, 2018, the Corporation's finance lease obligation amounted to \$3,986 (January 28, 2018 – n/a). During the 39-week period ended October 28, 2018, the Corporation recorded an interest expense of \$88 (October 29, 2017 – n/a) on the finance lease.

Commitments

As at October 28, 2018, contractual obligations for operating leases amounted to \$1,093,496 (October 29, 2017 – \$1,071,001). The leases extend, depending on the renewal options, over various periods up to the year 2039.

As at October 28, 2018, the Corporation had commitments of approximately \$31,176 (October 29, 2017 – n/a) for the expansion of the distribution centre.

11 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. The statutory income tax rate for the 13-week and 39-week periods ended October 28, 2018 was 27.0% (October 29, 2017 – 26.9%). The Corporation's effective income tax rate for the 13-week and 39-week periods ended October 28, 2018 was 27.2% and 27.4%, respectively (13-week and 39-week periods ended October 29, 2017 – 27.4%).

12 Earnings per common share

Diluted net earnings per common share (retrospectively restated to reflect the Share Split) for the 13-week and 39-week periods ended on the dates indicated below were calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares as follows:

	13-week periods ended		39-week periods ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net earnings attributable to shareholders of the Corporation and used to determine basic and diluted net earnings per common share	<u>\$133,547</u>	<u>\$130,092</u>	<u>\$376,894</u>	<u>\$356,582</u>
Weighted average number of common shares outstanding (<i>thousands</i>)	325,032	336,573	326,752	339,909
Assumed share options exercised (<i>thousands</i>)	<u>3,873</u>	<u>4,230</u>	<u>4,240</u>	<u>4,092</u>
Weighted average number of common shares for diluted net earnings per common share (<i>thousands</i>)	<u>328,905</u>	<u>340,803</u>	<u>330,992</u>	<u>344,001</u>
Diluted net earnings per common share	<u>\$0.41</u>	<u>\$0.38</u>	<u>\$1.14</u>	<u>\$1.04</u>

As at October 28, 2018, 540,000 share options have an anti-dilutive effect since the average market price of the underlying shares was lower than the exercise price of those share options (January 28, 2018 – n/a).

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13 Related party transactions

Rent

Rental expenses charged by entities controlled by the Rossy family totalled \$3,069 and \$13,190, respectively, for the 13-week and 39-week periods ended October 28, 2018 (13-week and 39-week periods ended October 29, 2017 - \$3,669 and \$14,703, respectively). Rental expenses include charges related to the distribution centre until February 21, 2018, the date on which it was acquired by the Corporation.

These transactions were measured at cost, which equals fair value, being the amount of consideration established at market terms.

Property

On February 21, 2018, the Corporation acquired its existing distribution centre, which was previously leased from an entity controlled by the Rossy family, for a total \$39,000 of which \$16,848 accounted for land and \$22,152 for the building. This purchase was a related party transaction at fair value, being the amount of consideration established at market terms, based on an independent appraisal.

14 Expenses by nature included in the interim consolidated statement of net earnings and comprehensive income

	13-week periods ended		39-week periods ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	\$	\$	\$	\$
Cost of sales				
Cost of goods sold, labour, transport and other costs	450,354	410,740	1,292,987	1,193,366
Occupancy costs	78,057	74,963	230,882	222,450
Total cost of sales	528,411	485,703	1,523,869	1,415,816
Depreciation and amortization				
Depreciation of property, plant and equipment	16,149	14,691	47,512	42,785
Amortization of intangible assets	3,480	3,308	9,983	9,060
Total depreciation and amortization	19,629	17,999	57,495	51,845
Employee benefits	96,392	89,611	273,678	252,614
Net financing costs	11,443	10,154	34,178	29,621

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15 Changes in non-cash working capital

The changes in non-cash working capital components for the 13-week and 39-week periods ended on the dates indicated below are as follows:

	13-week periods ended		39-week periods ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	\$	\$	\$	\$
Accounts receivable	(7,988)	(867)	(19,490)	1,138
Prepaid expenses	1,545	902	539	478
Prepaid income taxes	(1,661)	-	(1,661)	-
Inventories	(48,117)	(44,373)	(80,028)	(50,921)
Accounts payable and accrued liabilities	(14,273)	(6,064)	(24,525)	(10,485)
Income taxes payable	(5,529)	14,912	(39,491)	11,731
	(76,023)	(35,490)	(164,656)	(48,059)
Cash paid for income taxes	51,817	25,862	175,579	116,068
Cash paid for interest	3,804	1,559	24,531	17,845

Cash paid for income taxes and interest are cash flows used in operating activities.

16 Events after the reporting period

Amendment to normal course issuer bid

On December 5, 2018, the Corporation received approval from the TSX to amend the 2018-2019 NCIB in order to increase the number of shares that may be repurchased thereunder over the 12-month period between June 20, 2018 to June 19, 2019 from 16,386,351 to 30,095,056 common shares (now representing 10.0% of the Corporation's public float as at June 6, 2018). The other terms of the 2018-2019 NCIB remain unchanged.

Quarterly cash dividend

On December 6, 2018, the Corporation announced that its board of directors had approved a quarterly cash dividend for holders of its common shares of \$0.04 per common share. The Corporation's quarterly cash dividend will be paid on February 8, 2019 to shareholders of record at the close of business on January 11, 2019 and is designated as an "eligible dividend" for Canadian tax purposes.

Issuance of fixed rate senior unsecured notes

On November 5, 2018, the Corporation issued \$500,000 aggregate principal amount of fixed rate senior unsecured notes due November 6, 2023 (the "3.55% Fixed Rate Notes") by way of private placement in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 3.55% Fixed Rate Notes were issued at a price of \$995.37 per \$1,000.00 principal amount of 3.55% Fixed Rate Notes, for an effective yield of 3.652% and aggregate gross proceeds of \$497,685. The 3.55% Fixed Rate Notes bear interest at a fixed rate of 3.55% per annum, payable in equal semi-annual instalments, in arrears, on the 6th day of May and November of each year over the five-year term. The net proceeds of the offering were used to repay the 3.095% Fixed Rate Notes which matured on November 5, 2018, repay indebtedness outstanding under the Credit Facility and for general corporate purposes. The 3.55% Fixed Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS Limited.

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Settlement of bond forward sale derivatives

On October 29, 2018, immediately after the pricing of the 3.55% Fixed Rate Notes, the Corporation settled the bond forward sale derivatives which were entered into in January 2018, March 2018, May 2018, June 2018 and July 2018, to manage the exposure to interest rate risk in advance of the financing. The realized gain on the settlement of the derivatives was \$2,307 and will be amortized in net financing costs over the term of the 3.55% Fixed Rate Notes.