

# **Dollarama Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

**October 30, 2011**

(expressed in thousands of Canadian dollars)

# Dollarama Inc.

## Interim Consolidated Statement of Financial Position (Unaudited)

(expressed in thousands of Canadian dollars)

	As of October 30, 2011 \$	As of January 30, 2011 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	19,534	53,129
Accounts receivable	1,043	1,821
Deposits and prepaid expenses	3,590	4,658
Merchandise inventories	305,181	258,905
Derivative financial instruments (note 5)	2,755	838
	<u>332,103</u>	<u>319,351</u>
<b>Non-current assets</b>		
Property and equipment	164,635	152,081
Intangible assets	110,821	111,917
Goodwill	727,782	727,782
	<u>1,335,341</u>	<u>1,311,131</u>
<b>Total assets</b>		
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	103,182	103,858
Dividend payable	6,635	-
Income taxes payable	8,480	12,830
Derivative financial instruments (note 5)	1,326	5,630
Current portion of long-term debt (note 6)	13,957	14,292
	<u>133,580</u>	<u>136,610</u>
<b>Non-current liabilities</b>		
Long-term debt (note 6)	261,620	347,763
Deferred income taxes	71,054	61,906
Other liabilities	36,118	33,644
	<u>502,372</u>	<u>579,923</u>
<b>Total liabilities</b>		
<b>Shareholders' equity</b>		
Share capital	524,477	523,295
Contributed surplus	15,919	16,066
Retained earnings	295,315	198,712
Accumulated other comprehensive loss	(2,742)	(6,865)
	<u>832,969</u>	<u>731,208</u>
<b>Total equity</b>		
<b>Total liabilities and shareholders' equity</b>	<u>1,335,341</u>	<u>1,311,131</u>
<b>Commitments and contingencies</b> (note 9)		

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

# Dollarama Inc.

## Interim Consolidated Statement of Shareholders' Equity (Unaudited)

(expressed in thousands of Canadian dollars)

	Share capital \$	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive loss \$	Total \$
<b>Balance – February 1, 2010</b>	518,430	17,472	81,885	(10,091)	607,696
Net earnings for the period	-	-	74,793	-	74,793
Other comprehensive income					
Unrealized gain on derivative financial instruments, net of reclassification adjustment and income taxes of \$1,852	-	-	-	5,243	5,243
<b>Total comprehensive income</b>					<b>80,036</b>
<b>Transactions with owners</b>					
Stock-based compensation (note 8)	-	827	-	-	827
Issuance of common shares	2,242	-	-	-	2,242
Reclassification related to exercise of stock options	1,524	(1,524)	-	-	-
	3,766	(697)	-	-	3,069
<b>Balance – October 31, 2010</b>	522,196	16,775	156,678	(4,848)	690,801
<b>Balance – January 30, 2011</b>	523,295	16,066	198,712	(6,865)	731,208
Net earnings for the period	-	-	109,867	-	109,867
Other comprehensive income					
Unrealized gain on derivative financial instruments, net of reclassification adjustment and income taxes of \$1,451	-	-	-	4,123	4,123
<b>Total comprehensive income</b>					<b>113,990</b>
<b>Transactions with owners</b>					
Dividends declared	-	-	(13,264)	-	(13,264)
Stock-based compensation (note 8)	-	607	-	-	607
Issuance of common shares	428	-	-	-	428
Reclassification related to exercise of stock options	754	(754)	-	-	-
	1,182	(147)	(13,264)	-	(12,229)
<b>Balance – October 30, 2011</b>	524,477	15,919	295,315	(2,742)	832,969

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

# Dollarama Inc.

## Interim Consolidated Statement of Comprehensive Income (Unaudited)

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

	For the 13-week period ended October 30, 2011 \$	For the 13-week period ended October 31, 2010 \$	For the 39-week period ended October 30, 2011 \$	For the 39-week period ended October 31, 2010 \$
Sales	400,347	355,742	1,134,121	1,011,202
Cost of sales	252,270	227,130	720,180	654,404
<b>Gross profit</b>	148,077	128,612	413,941	356,798
General, administrative and store operating expenses	75,990	69,172	218,826	198,055
Amortization and depreciation	8,667	7,351	24,615	21,045
<b>Operating income</b>	63,420	52,089	170,500	137,698
Net financing costs	3,444	7,336	13,503	28,636
<b>Earnings before income taxes</b>	59,976	44,753	156,997	109,062
<b>Provision for income taxes</b>	18,184	13,409	47,130	34,269
<b>Net earnings for the period</b>	41,792	31,344	109,867	74,793
<b>Other comprehensive income (loss)</b>				
Unrealized gain on derivative financial instruments, net of reclassification adjustment (note 5)	18,851	4,668	5,574	7,095
Income taxes relating to component of other comprehensive income	(4,908)	(1,216)	(1,451)	(1,852)
<b>Total other comprehensive income, net of income taxes</b>	13,943	3,452	4,123	5,243
<b>Total comprehensive income for the period</b>	55,735	34,796	113,990	80,036
<b>Earnings per share</b>				
Basic net earnings per common share	0.57	0.43	1.49	1.02
Diluted net earnings per common share	0.55	0.42	1.45	0.99
<b>Weighted average number of common shares outstanding during the period</b> (in thousands)	73,713	73,169	73,665	73,073
<b>Weighted average number of diluted common shares outstanding during the period</b> (in thousands)	75,533	75,429	75,537	75,349

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

# Dollarama Inc.

## Interim Consolidated Statement of Cash Flows (Unaudited)

(expressed in thousands of Canadian dollars)

	For the 13-week period ended October 30, 2011 \$	For the 13-week period ended October 31, 2010 \$	For the 39-week period ended October 30, 2011 \$	For the 39-week period ended October 31, 2010 \$
<b>Cash flows</b>				
<b>Operating activities</b>				
Net earnings for the period	41,792	31,344	109,867	74,793
Adjustments for				
Depreciation of property and equipment	8,721	7,450	24,706	21,407
Amortization of intangible assets	241	326	863	1,026
Amortization of deferred tenant allowances	(593)	(514)	(1,816)	(1,478)
Amortization of deferred leasing costs	77	85	233	279
Amortization of unfavourable lease rights	(295)	(425)	(954)	(1,388)
Amortization of debt issue cost and discounts	297	1,887	1,948	9,062
Excess of receipts (disbursements) over amount recognized on derivative financial instruments (note 5)	2,069	4,554	(647)	14,761
Foreign exchange gain on long-term debt	-	-	-	(15,850)
Deferred lease inducements	433	819	2,324	2,016
Deferred leasing costs	-	-	-	(26)
Deferred tenant allowances	550	987	2,225	3,139
Stock-based compensation (note 8)	186	273	607	827
Repayment of capitalized interest on long-term debt	-	-	-	(28,074)
Repayment of finance lease principal	(510)	-	(510)	-
Deemed interest on repayment of long-term debt	(63)	(1,577)	(1,364)	(19,358)
Deferred income taxes	2,943	658	7,697	2,275
Other	(23)	12	(51)	10
	55,825	45,879	145,128	63,421
Changes in non-cash working capital components	(41,291)	(10,818)	(50,047)	(27,286)
Net cash generated from operating activities	14,534	35,061	95,081	36,135
<b>Investing activities</b>				
Settlement of derivative financial instruments	-	-	-	(54,262)
Purchase of property and equipment	(12,201)	(12,410)	(35,634)	(29,850)
Proceeds on disposal of property and equipment	122	49	221	116
Net cash used by investing activities	(12,079)	(12,361)	(35,413)	(83,996)
<b>Financing activities</b>				
Proceeds from long-term debt	-	-	-	525,000
Repayment of long-term debt (note 6)	(3,461)	(94,986)	(86,987)	(517,250)
Dividends	(6,629)	-	(6,629)	-
Issuance of common shares	-	607	428	2,242
Debt issue costs	(75)	(72)	(75)	(8,029)
Net cash generated from (used by) financing activities	(10,165)	(94,451)	(93,263)	1,963
<b>Decrease in cash and cash equivalents</b>	(7,710)	(71,751)	(33,595)	(45,898)
<b>Cash and cash equivalents – Beginning of period</b>	27,244	118,910	53,129	93,057
<b>Cash and cash equivalents – End of period</b>	19,534	47,159	19,534	47,159
Cash payment of interest	2,430	7,095	9,268	49,046
Cash payment of income taxes	15,902	17,704	44,067	52,197

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

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

October 30, 2011

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

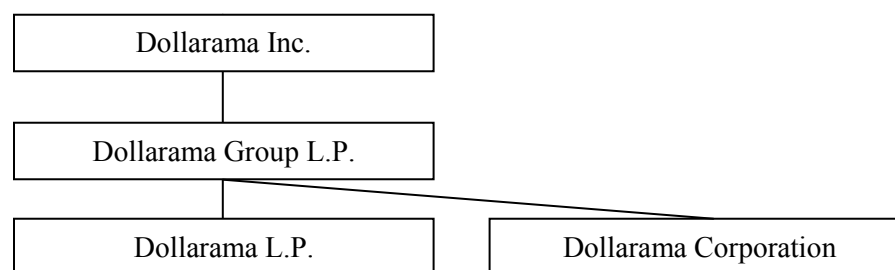
### 1 General information and basis of measurement

#### 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 \$2 or less. As of October 30, 2011, it maintains retail operations in every Canadian province. The retail operations’ corporate headquarters, distribution centre and warehouses are located in the Montréal area, Canada. The Corporation is listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada.

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

As of October 30, 2011, the significant entities within the legal structure of the Corporation are as follows:



Dollarama Group L.P. has a senior secured credit facility as further described in note 6.

Dollarama L.P. and Dollarama Corporation operate the chain of stores and perform related logistical and administrative support activities.

#### Basis of measurement

These condensed interim consolidated financial statements have been prepared under the historical cost principle, except for derivative financial instruments carried at fair value.

# **Dollarama Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

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

### **2 Basis of preparation and transition to International Financial Reporting Standards (“IFRS”)**

#### **Basis of preparation and adoption of IFRS**

The Corporation prepares its condensed interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS, and publicly accountable enterprises are required to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation commenced reporting on this basis in its fiscal 2012 condensed interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, and IFRS 1, “First-time Adoption of International Financial Reporting Standards”. The accounting policies followed in these interim financial statements are the same as those applied in the Corporation’s interim financial statements as of and for the period ended May 1, 2011. The Corporation has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Corporation’s reported shareholders’ equity as of October 31, 2010 and comprehensive income and cash flows for the period ended October 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended January 30, 2011, as issued and outstanding as of December 6, 2011, the date on which the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending January 29, 2012 could result in restatement of these condensed interim consolidated financial statements, including transition adjustments recognized on changeover to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Corporation’s Canadian GAAP annual financial statements for the year ended January 30, 2011 and the Corporation’s interim financial statements for the quarter ended May 1, 2011 prepared in accordance with IFRS applicable to interim financial statements.

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

## 3 Transition to IFRS

### Reconciliation between IFRS and previous Canadian GAAP

The following reconciliations provide a quantification of the effect of the transition from Canadian GAAP to IFRS for equity, comprehensive income and cash flows.

#### 1. Reconciliation of shareholders' equity between previous reporting under Canadian GAAP and IFRS

	As of October 31, 2010 \$
<b>Total shareholders' equity under Canadian GAAP</b>	697,801
Deferred tax adjustment on measurement	<u>7,000</u>
<b>Total shareholders' equity under IFRS</b>	<u>690,801</u>

#### 2. Reconciliation of comprehensive income between previous reporting under Canadian GAAP and IFRS

The transition from Canadian GAAP to IFRS had no significant impact on comprehensive income.

#### 3. Reconciliation of consolidated statement of cash flows between previous reporting under Canadian GAAP and IFRS

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Corporation.

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) October 30, 2011

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

### 4 Summary of significant accounting policies

#### Accounting standards issued but not yet applied

The following standards and amendments to existing standards have been published and are mandatory for the Corporation's accounting periods beginning on February 4, 2013. The Corporation has not early adopted them.

- IFRS 9, "Financial Instruments", was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, "Financial Instruments: Recognition and Measurement", with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are recognized either at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent that they do not clearly represent a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010, and they largely carry forward existing requirements in IAS 39, except that in the new requirements, fair value changes due to credit risk for liabilities designated at fair value through profit or loss must be recorded in other comprehensive income (loss). This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation has not yet assessed the impact of the standard.
- In May 2011, the International Accounting Standards Board issued the following standards which have not yet been adopted by the Corporation: IFRS 10, "Consolidated Financial Statements"; IFRS 11, "Joint Arrangements"; IFRS 12, "Disclosure of Interests in Other Entities"; IAS 27, "Consolidated and Separate Financial Statements"; IFRS 13, "Fair Value Measurement"; and IAS 28, "Investments in Associates and Joint Ventures" (as amended in 2011). Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards.

#### IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when the entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (SIC) Interpretation 12, "Consolidation – Special Purpose Entities", and parts of IAS 27.

# **Dollarama Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

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

### IFRS 11 – Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, “Interests in Joint Ventures”, and SIC 13, “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”.

### IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special-purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

### IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

### Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27, IAS 28 and IAS 1, “Presentation of Financial Statements”. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRSs 10 to 13. IAS 1 has been amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether they may be recycled to profit or loss in the future.

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

### 5 Derivative financial instruments

A summary of the aggregate contractual or notional amounts, statement of financial position location and estimated fair values of derivative financial instruments as of October 30, 2011 and January 30, 2011 is as follows:

<u>As of October 30, 2011</u>					
	Contractual nominal value US\$	Contractual nominal value €	Statement of financial position location	Fair value – Asset (liability) \$	Nature of hedging relationship
<b>Hedging instruments</b>					
Foreign exchange forward contracts	214,000	925	Current assets	2,755	Cash flow hedge
Foreign exchange forward contracts	102,000	150	Current liabilities	(838)	Cash flow hedge
	<u>316,000</u>	<u>1,075</u>		<u>1,917</u>	
<b>Non-hedging instruments</b>					
Cumulative foreign exchange forward contract	30,000	-	Current liabilities	(488)	
	<u>346,000</u>	<u>1,075</u>		<u>1,429</u>	
<u>As of January 30, 2011</u>					
	Contractual nominal value US\$	Contractual nominal value €	Statement of financial position location	Fair value – Asset (liability) \$	Nature of hedging relationship
<b>Hedging instruments</b>					
Foreign exchange forward contracts	90,324	992	Current assets	838	Cash flow hedge
Foreign currency swap agreements	261,517	450	Current liabilities	(5,630)	Cash flow hedge
	<u>351,841</u>	<u>1,442</u>		<u>(4,792)</u>	

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) October 30, 2011

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

	As of October 30, 2011 \$	As of January 30, 2011 \$
<b>Derivative financial instruments</b>		
Current assets	2,755	838
Current liabilities	(1,326)	(5,630)
	<u>1,429</u>	<u>(4,792)</u>

The Corporation is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative financial instruments is currency risk. Foreign exchange forward contracts and cumulative foreign exchange forward contracts are entered into to manage the currency fluctuation risk associated with forecasted US-dollar and euro merchandise purchases sold in stores.

For foreign exchange forward contracts, the Corporation formally documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions.

Foreign exchange forward contracts are designated as hedging instruments and recorded at fair value, determined using market prices. The Corporation designates its foreign exchange forward contracts as hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges). All gains and losses from changes in fair value of foreign exchange forward contracts designated as cash flow hedges are recorded in accumulated other comprehensive income (loss) and reclassified to earnings when the associated gains (losses) on related hedged items are recognized in earnings.

The cumulative foreign exchange forward contract does not qualify for hedge accounting treatment; as such, changes in its fair value are recognized in earnings.

Up to June 14, 2010, the Corporation used foreign currency and interest rate swap agreements to manage currency fluctuation risk and interest rate risk associated with US-dollar borrowings. Those derivative financial instruments were classified as held for trading. All gain and losses from changes in fair value of derivative financial instruments not designated as hedges were recognized in earnings.

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## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

					<b>For the 13-week period ended October 30, 2011</b>				
					<b>Impact on statement of financial position</b>	<b>Pre-tax impact on comprehensive income</b>	<b>Impact on earnings</b>	<b>Impact on cash flows</b>	
					<b>Change in fair value during the period of derivative financial instruments \$</b>	<b>Unrealized gain (loss) on derivative financial instruments, net of reclassification adjustment \$</b>	<b>Cost of sales \$</b>	<b>Excess of receipts (disbursements) over amount recognized on derivative financial instruments \$</b>	
					<b>Note</b>				
<b>Derivative financial instruments</b>									
Non-hedging									
					5(d)	(488)		(488)	488
Hedging									
						17,270		17,270	
								(2,045)	(2,045)
						3,626	(3,626)		3,626
						18,851	(4,114)		2,069



# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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		<b>For the 13-week period ended October 31, 2010</b>			
		<b>Impact on statement of financial position</b>	<b>Pre-tax impact on other comprehensive income</b>	<b>Impact on earnings</b>	<b>Impact on cash flows</b>
		<b>Change in fair value during the period of investment, long-term debt and derivative financial instruments</b>	<b>Unrealized gain (loss) on derivative financial instruments, net of reclassification adjustment</b>	<b>Cost of sales</b>	<b>Excess of receipts (disbursements) over amount recognized on derivative financial instruments</b>
<b>Note</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Derivative financial instruments</b>					
Hedging					
	Net change in unrealized loss on foreign exchange forward contracts	5(b)	114	114	
	Realized losses on foreign exchange forward contracts	5(b)		(576)	(576)
	Transfer to earnings	5(b)		5,130	(5,130)
	Total		4,668	(5,130)	4,554

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) October 30, 2011

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

For the 39-week period ended October 31, 2010							
	Impact on statement of financial position	Pre-tax impact on other comprehensive income	Impact on earnings		Impact on cash flows		
	Change in fair value during the period of investment, long-term debt and derivative financial instruments Note	Unrealized gain (loss) on derivative instruments, net of reclassification adjustment	Net financing costs	Cost of sales	Excess of receipts (disbursements) over amount recognized on derivative financial instruments	Foreign exchange loss (gain) on long-term debt	Settlement of derivative financial instruments
	\$	\$	\$	\$	\$	\$	\$
<b>Investment and long-term debt</b>							
Senior subordinated deferred interest notes	7,464		7,464			(7,464)	
Term bank loan	8,198		8,198			(8,198)	
Other foreign exchange loss			(235)			(188)	
			-	15,427	-	-	(15,850)
<b>Derivative financial instruments</b>							
<b>Hedging</b>							
Net change in unrealized loss on foreign exchange forward contracts	6,633	6,633					
Realized losses on foreign exchange forward contracts		(15,060)			(15,060)		
Transfer to earnings		15,522		(15,522)	15,522		
		7,095	-	(15,522)	462	-	-
<b>Non-hedging</b>							
Foreign currency and interest rate swap agreements	5(a)	(7,540)		(7,540)	7,540		
Foreign currency swap agreements	5(c)	(6,759)		(6,759)	6,759		
Settlement of foreign currency and interest rate swap agreements	5(a)	40,299					(40,299)
Settlement of foreign currency swap agreements	5(c)	10,963					(10,963)
Other materialized loss on early settlement of derivatives	5(c)	3,000					(3,000)
Realized loss on foreign currency and interest rate swap interest payments			(853)				
Realized gain on foreign currency swap agreement interest payments			59				
			-	(15,093)	-	14,299	-
			-	(15,093)	-	14,299	-
Total		7,095	334	(15,522)	14,761	(15,850)	(54,262)

### a) Foreign currency and interest rate swap agreements

Prior to June 14, 2010, the Corporation entered into swap agreements consisting of a combination of a foreign currency swap and an interest rate swap that were undertaken to address two risks associated with its US-dollar LIBOR-based term bank loan.

On June 14, 2010, as a result of the repayment of the US-dollar term bank loan, the Corporation simultaneously settled all of its related swap agreements. The settlement of US\$233,465,000 for CA\$281,655,000 resulted in a net cash outflow of \$40,299,000.

For the period from February 2 to June 14, 2010, a loss of \$7,540,000 was recorded in earnings.

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Changes in fair value of the foreign currency and interest rate swap agreements were reported in the interim consolidated statement of comprehensive income under “Foreign exchange gain on derivative financial instruments and long-term debt”.

b) Foreign exchange forward contracts

As of October 30, 2011, the Corporation was party to foreign exchange forward contracts to purchase US\$316,000,000 for CA\$313,008,480 (January 30, 2011 – US\$351,842,000 for CA\$358,665,000) and €1,075,000 for CA\$1,462,136 (January 30, 2011 – €1,442,000 for CA\$1,594,000), maturing between November 2011 and August 2012.

In addition to the fair value of the foreign exchange forward contracts representing a gain of \$1,407,000 (net of taxes of \$510,000) as of October 30, 2011 (January 30, 2011 – loss of \$3,517,328, net of taxes of \$1,274,672), “Accumulated other comprehensive loss” includes a loss of \$4,132,000 (net of taxes of \$1,497,000) (January 30, 2011 – loss of \$3,298,596, net of taxes of \$1,195,404) on foreign exchange forward contracts settled before October 30, 2011, but which will be reported in earnings based on the recognition of the related inventories in earnings.

c) Foreign currency swap agreements

On March 17, 2010, the Corporation modified its swap agreements, which resulted in a net outflow of \$3,000,000.

On June 14, 2010, as a result of the repayment of the senior subordinated deferred interest notes, the Corporation simultaneously settled all of its related swap agreements. The settlement of US\$213,000,000 for CA\$231,163,000 resulted in a net cash outflow of \$10,963,000.

For the period from February 2 to June 14, 2010, a loss of \$6,759,000 was recorded in earnings.

d) Cumulative foreign exchange forward contract

As of October 30, 2011, the Corporation was party to a cumulative foreign exchange forward contract to purchase US\$667,000 for CA\$670,000 with a remaining possibility to purchase US\$29,333,000 for CA\$29,485,000, maturing between September 4, 2012 and September 28, 2012. The change in fair value of the cumulative foreign exchange forward contract representing a loss a \$358,000 (net of taxes of \$130,000) was included in earnings for the period.

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) October 30, 2011

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

### 6 Long-term debt

Long-term debt outstanding consists of the following:

	Note	As of October 30, 2011 \$	As of January 30, 2011 \$
Senior secured credit facility	6(a)	278,522	366,875
Less: Current portion (net of financing cost of \$145,000; January 30, 2011 – \$190,000)		13,957	14,292
		264,565	352,583
Less: Financing costs		2,945	4,820
		261,620	347,763

#### a) Senior secured credit facility

On June 10, 2010, Dollarama Group L.P., a wholly owned subsidiary of the Corporation, entered into an agreement to refinance its senior secured credit facility with a new \$600,000,000 syndicated senior secured credit facility. This senior secured credit facility was amended on October 5, 2011 to reflect (i) a change in the interest rates, from a range of 2.25% to 3.25% above bankers' acceptance rates to a range of 1.25% to 2.25% above bankers' acceptance rates, and (ii) an extended maturity date on the revolving credit facility until June 10, 2015.

The syndicated senior secured credit facility includes a revolving credit facility amounting to \$75,000,000 and consisting of revolving credit loans, bankers' acceptances, swing line loans and a letter of credit facility. Borrowings under the swing line loans are limited to \$10,000,000, and the letter of credit facility is limited to \$25,000,000. As of October 30, 2011, there were no borrowings under the revolving credit facility, and letters of credit issued for the purchase of inventories amounted to \$908,000 (January 30, 2011 – \$761,000 outstanding under the previous senior secured credit facility). The maturity date of the revolving credit facility was extended from June 2014 to June 2015.

The syndicated senior secured credit facility also includes a \$525,000,000 term bank loan. Borrowings under the term bank loan amounted to \$278,522,000 as of October 30, 2011. The term loan of the syndicated senior secured credit facility will continue to mature in June 2014 and is repayable in quarterly capital instalments of \$3,525,596 until January 2014 and a final capital instalment of \$246,791,737 at maturity. Since October 5, 2011, advances under the syndicated senior secured credit facility bear interest at rates ranging from 1.25% to 2.25% above the bank's prime rate and 1.25% to 2.25% above bankers' acceptance rates. Subject to certain exceptions and reductions in the total lease-adjusted leverage ratio, the term bank loan requires payment of 100% of net cash proceeds on certain sales of assets.

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) October 30, 2011

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

### *Repayment of principal under the senior secured credit facility*

On July 29, 2011, the Corporation made an \$84,827,000 payment on the term bank loan of its senior secured credit facility, consisting of a quarterly capital instalment of \$4,827,000 and a prepayment of \$80,000,000.

- b) Principal repayments on long-term debt due 12 months from the statement of financial position date in each of the next three years are approximately as follows:

	\$
2012	14,102
2013	14,102
2014	250,318

## 7 Income taxes

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the year ended January 30, 2011 and the 39-week period ended October 30, 2011 were 30.2% and 28.2% respectively.

## 8 Stock-based compensation

The Corporation established a management option plan whereby its directors, managers and employees may be granted stock options to acquire its shares. Under the plan, the number and characteristics of stock options granted are determined by the Board of Directors of the Corporation, and the options will have a life not exceeding 10 years.

Under the plan, the following types of options are available:

- a) Options with service requirements ("Service Conditions")

These options were granted to purchase an equivalent number of common shares. The options vest at a rate of 20% annually on the anniversary of the grant date.

- b) Options with service and performance requirements ("Performance Conditions")

These options were granted to purchase an equivalent number of common shares. The options become eligible to vest annually from the date of grant at a rate of 20% when the Performance Conditions are met. As of October 30, 2011, there are no options with performance requirements outstanding.

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

October 30, 2011

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

	<b>Number of common share options</b>	<b>Weighted average purchase price \$</b>
<b>Outstanding – January 30, 2011</b>	2,423,631	6.23
Granted	39,000	30.46
Exercised	158,610	10.27
<b>Outstanding – October 30, 2011</b>	<u>2,304,021</u>	<u>6.41</u>
<b>Exercisable – October 30, 2011</b>	<u>2,015,180</u>	<u>4.82</u>

During the 13-week and 39-week periods ended October 30, 2011, the Corporation recognized compensation expense of \$186,000 and \$607,000 respectively (periods ended October 31, 2010 – \$273,000 and \$827,000 respectively).

Information relating to share options outstanding as of October 30, 2011:

Price range \$	<u>Options outstanding</u>		<u>Options exercisable</u>	
	Number of options	Weighted average remaining life (months)	Number of options	Weighted average remaining life (months)
2.30	1,354,578	37	1,354,578	37
9.20–9.38	715,959	63	605,288	61
11.99	72,936	78	30,126	79
17.50	13,548	96	3,988	95
22.42	2,000	98	400	98
24.51	100,000	101	20,000	100
26.55	4,000	107	800	107
28.84	2,000	110	-	-
29.10	2,000	113	-	-
29.65	33,000	114	-	-
37.77	4,000	120	-	-
	<u>2,304,021</u>	<u>51</u>	<u>2,015,180</u>	<u>45</u>

# Dollarama Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

October 30, 2011

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

The weighted average fair value of the share options granted was estimated at the grant date based on the Black-Scholes option pricing model using the following assumptions:

	<b>For the 39-week period ended October 30, 2011</b>	<b>For the 39-week period ended October 31, 2010</b>
Dividend yield	2.60%	Nil
Risk-free interest rate	3%	3%
Expected life (in years)	6.00	6.00
Expected volatility	20.14%	48%
Weighted average fair value of share options granted at the grant date	\$30.46	\$12.22

As part of the Corporation's management option plan, the expected life of the options has to be determined. The expected life is estimated using the average of the vesting period and the contractual life of the options. The volatility is estimated based on stock prices of comparable companies, as adjusted to take into account the Corporation's public trading history.

## 9 Commitments and contingencies

As of October 30, 2011, contractual obligations for operating leases amounted to approximately \$621,747,000. The leases extend over various periods up to the year 2026.

The basic rent and contingent rent expense of operating leases for store, warehouse, distribution centre and corporate headquarters included in the interim consolidated statement of comprehensive income are as follows:

	<b>For the 13-week period ended October 30, 2011 \$</b>	<b>For the 13-week period ended October 31, 2010 \$</b>	<b>For the 39-week period ended October 30, 2011 \$</b>	<b>For the 39-week period ended October 31, 2010 \$</b>
Basic rent	22,892	20,640	67,865	60,602
Contingent rent	1,021	574	2,568	2,024
	<u>23,913</u>	<u>21,214</u>	<u>70,433</u>	<u>62,626</u>

The Corporation entered into a finance lease totalling \$1,796,555 as of January 1, 2011. The amount due under the finance lease has an implied interest rate of 8.4% and a maturity extending until December 1, 2013. During the third quarter, the Corporation recorded interest expense of \$30,896 (2010 – nil).

# **Dollarama Inc.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**October 30, 2011**

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

### **10 Related party transactions**

Expenses charged by entities controlled by a director, which mainly comprise rent, totalled \$2,915,000 and \$12,167,000 for the 13-week and 39-week periods ended October 30, 2011 respectively (periods ended October 31, 2010 – \$3,598,000 and \$11,072,000 respectively).

These transactions were measured at the exchange amount, which is the amount of consideration established at market terms.

### **11 Subsequent event**

On December 7, 2011, the Corporation announced that its Board of Directors approved a quarterly dividend for holders of its common shares at \$0.09 per common share. The quarterly dividend will be paid on February 1, 2012 to shareholders of record at the close of business on January 5, 2012.