

# **Dollarama Inc.**

Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)



March 30, 2017

## **Independent Auditor's Report**

**To the Shareholders of  
Dollarama Inc.**

We have audited the accompanying consolidated financial statements of Dollarama Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at January 29, 2017 and January 31, 2016 and the consolidated statements of changes in shareholder's equity, net earnings and comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.  
1250 René-Lévesque Boulevard West, Montréal, Quebec, Canada H3B 4Y1  
T: +1 514 205 5000, F: +1 514 876 1502*

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dollarama Inc. and its subsidiaries as at January 29, 2017 and January 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A117693

# Dollarama Inc.

## Consolidated Statement of Financial Position as at (Expressed in thousands of Canadian dollars)

	Note	January 29, 2017 \$	January 31, 2016 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		62,015	59,178
Accounts receivable		15,386	11,118
Deposits and prepaid expenses		7,162	8,900
Merchandise inventories		465,715	470,195
Derivative financial instruments	14	8,787	67,542
		<u>559,065</u>	<u>616,933</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	437,089	332,225
Intangible assets	7	139,515	136,934
Goodwill	7	727,782	727,782
		<u>1,863,451</u>	<u>1,813,874</u>
<b>Total assets</b>			
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	198,486	166,171
Dividend payable		11,591	11,087
Income taxes payable		16,597	45,638
Derivative financial instruments	14	8,085	-
Finance lease obligations		-	588
Current portion of long-term debt	9	278,643	3,542
		<u>513,402</u>	<u>227,026</u>
<b>Non-current liabilities</b>			
Long-term debt	9	1,050,101	920,772
Deferred rent and lease inducements	11	81,827	71,632
Deferred income taxes	13	117,837	127,592
		<u>1,763,167</u>	<u>1,347,022</u>
<b>Total liabilities</b>			
<b>Commitments</b>			
	10		
<b>Shareholders' equity</b>			
Share capital	12	420,266	439,296
Contributed surplus		24,321	20,136
Deficit	12	(342,957)	(62,375)
Accumulated other comprehensive income (loss)	12	(1,346)	69,795
		<u>100,284</u>	<u>466,852</u>
<b>Total shareholders' equity</b>			
<b>Total liabilities and shareholders' equity</b>			
		<u>1,863,451</u>	<u>1,813,874</u>

### Approved by the Board of Directors

Signed: "Stephen Gunn"  
Stephen Gunn, Director

Signed: "John J. Swidler"  
John J. Swidler, Director

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

## Dollarama Inc.

### Consolidated Statement of Changes in Shareholders' Equity for the years ended (Expressed in thousands of Canadian dollars, except share amounts)

	Note	Number of common shares	Share capital \$	Contributed surplus \$	Retained earnings/ (deficit) \$	Accumulated other comprehensive income (loss) \$	Total \$
<b>Balance – February 1, 2015</b>	12	129,790,354	462,734	15,338	196,112	66,296	740,480
Net earnings for the year		-	-	-	385,146	-	385,146
Other comprehensive income							
Unrealized gain on derivative financial instruments, net of reclassification adjustment and income tax of \$(1,290)	12	-	-	-	-	3,499	3,499
Dividends declared		-	-	-	(45,722)	-	(45,722)
Repurchase and cancellation of shares	12	(7,729,391)	(27,456)	-	(597,911)	-	(625,367)
Share-based compensation	12	-	-	6,114	-	-	6,114
Issuance of common shares	12	164,141	2,702	-	-	-	2,702
Reclassification related to exercise of share options	12	-	1,316	(1,316)	-	-	-
<b>Balance – January 31, 2016</b>		<b>122,225,104</b>	<b>439,296</b>	<b>20,136</b>	<b>(62,375)</b>	<b>69,795</b>	<b>466,852</b>
<b>Balance – January 31, 2016</b>	12	122,225,104	439,296	20,136	(62,375)	69,795	466,852
Net earnings for the year		-	-	-	445,636	-	445,636
Other comprehensive loss							
Unrealized loss on derivative financial instruments, net of reclassification adjustment and income tax recovery of \$25,860	12	-	-	-	-	(71,141)	(71,141)
Dividends declared		-	-	-	(47,440)	-	(47,440)
Repurchase and cancellation of shares	12	(7,420,168)	(26,669)	-	(678,778)	-	(705,447)
Share-based compensation	12	-	-	6,932	-	-	6,932
Issuance of common shares	12	246,413	4,892	-	-	-	4,892
Reclassification related to exercise of share options	12	-	2,747	(2,747)	-	-	-
<b>Balance – January 29, 2017</b>		<b>115,051,349</b>	<b>420,266</b>	<b>24,321</b>	<b>(342,957)</b>	<b>(1,346)</b>	<b>100,284</b>

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

## Dollarama Inc.

Consolidated Statement of Net Earnings and Comprehensive Income (Loss) for the years ended  
(Expressed in thousands of Canadian dollars, except share and per share amounts)

	Note	January 29, 2017	January 31, 2016
		<u>                    </u>	<u>                    </u>
Sales		2,963,219	2,650,327
Cost of sales	17	<u>1,801,935</u>	<u>1,617,051</u>
<b>Gross profit</b>		1,161,284	1,033,276
General, administrative and store operating expenses		458,026	435,816
Depreciation and amortization	17	<u>57,748</u>	<u>48,085</u>
<b>Operating income</b>		645,510	549,375
Financing costs	17	<u>33,083</u>	<u>21,395</u>
<b>Earnings before income taxes</b>		612,427	527,980
<b>Income taxes</b>	13	<u>166,791</u>	<u>142,834</u>
<b>Net earnings for the year</b>		<u>445,636</u>	<u>385,146</u>
<b>Other comprehensive income (loss)</b>			
<i>Items to be reclassified subsequently to net earnings</i>			
Unrealized gain (loss) on derivative financial instruments, net of reclassification adjustment		(97,001)	4,789
Income taxes relating to components of other comprehensive income (loss)		<u>25,860</u>	<u>(1,290)</u>
<b>Total other comprehensive income (loss), net of income taxes</b>		<u>(71,141)</u>	<u>3,499</u>
<b>Total comprehensive income for the year</b>		<u>374,495</u>	<u>388,645</u>
<b>Earnings per common share</b>			
Basic net earnings per common share	16	\$3.75	\$3.03
Diluted net earnings per common share	16	\$3.71	\$3.00
<b>Weighted average number of common shares outstanding during the year (thousands)</b>	16	118,998	127,271
<b>Weighted average number of diluted common shares outstanding during the year (thousands)</b>	16	120,243	128,420

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

# Dollarama Inc.

## Consolidated Statement of Cash Flows for the years ended (Expressed in thousands of Canadian dollars)

	Note	January 29, 2017	January 31, 2016
<b>Operating activities</b>			
Net earnings for the year		445,636	385,146
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	17	57,748	48,085
Amortization of deferred tenant allowances	11	(4,795)	(4,929)
Amortization of deferred leasing costs		519	584
Amortization of debt issue costs		1,481	1,301
Recognition of realized gains on foreign exchange contracts		(46,269)	(76,665)
Cash settlement of gains on foreign exchange contracts		16,108	97,921
Deferred lease inducements	11	6,020	4,811
Deferred tenant allowances	11	8,970	11,275
Share-based compensation	12	6,932	6,114
Financing costs on long-term debt		268	(304)
Deferred income taxes	13	16,105	4,118
Loss on disposal of assets		40	641
		<u>508,763</u>	<u>478,098</u>
Changes in non-cash working capital components	18	(3,595)	(28,861)
Net cash generated from operating activities		<u>505,168</u>	<u>449,237</u>
<b>Investing activities</b>			
Additions to property, plant and equipment	6	(153,574)	(83,231)
Additions to intangible assets	7	(12,640)	(11,199)
Proceeds on disposal of property, plant and equipment		462	670
Net cash used in investing activities		<u>(165,752)</u>	<u>(93,760)</u>
<b>Financing activities</b>			
Proceeds from long-term debt – Series 1 Floating Rate Notes	9	-	124,834
Net proceeds (repayments) from (of) Credit Facility	9	(120,000)	235,000
Proceeds from long-term debt - 2.337% Fixed Rate Notes	9	525,000	-
Payment of debt issue costs		(2,319)	(1,003)
Repayment of finance lease		(588)	(978)
Issuance of common shares		4,892	2,702
Dividends paid		(46,936)	(45,116)
Repurchase and cancellation of shares		(696,628)	(651,941)
Net cash used in financing activities		<u>(336,579)</u>	<u>(336,502)</u>
<b>Increase in cash and cash equivalents</b>		2,837	18,975
<b>Cash and cash equivalents – beginning of year</b>		<u>59,178</u>	<u>40,203</u>
<b>Cash and cash equivalents – end of year</b>		<u>62,015</u>	<u>59,178</u>

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

# Dollarama Inc.

## Notes to Consolidated Financial Statements

### January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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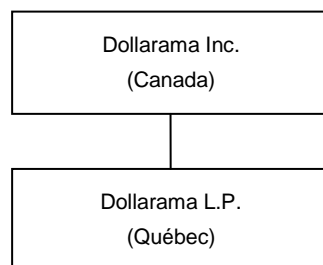
#### 1 General information

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 January 29, 2017, 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 fiscal year ends on the Sunday closest to January 31 of each year and usually has 52 weeks. However, as is traditional with the retail calendar, every five to six years, a week is added to the fiscal year. The fiscal years ended January 29, 2017 and January 31, 2016 were comprised of 52 weeks.

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

As at January 29, 2017, 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

The Corporation prepares its 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 consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, which are measured at fair value. The accounting policies of the Corporation have been applied consistently to all periods in these consolidated financial statements.

These consolidated financial statements were approved by the board of directors of the Corporation for issue on March 30, 2017.



# **Dollarama Inc.**

Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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## **3 Summary of significant accounting policies**

### **Subsidiaries**

Subsidiaries are all entities over which the Corporation has control. The Corporation determines control based on its ability to exercise power that significantly affects the entities relevant day-to-day activities. Control is also determined by our exposure to the variability in returns of our investment in the entity, whether favorable or unfavourable. Furthermore, control is defined by the Corporation's ability to direct the decisions made by the entity which ultimately impact our return on investment. The existence and effect of substantive voting rights are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is determined and they are deconsolidated from the date on which control is deemed to have ceased.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Corporation. All subsidiaries of the Corporation are wholly-owned subsidiaries.

### **Foreign currency translation**

Functional and presentation currency

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is also the Corporation's functional currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in earnings, except where hedge accounting is applied as described below under "Derivative financial instruments".

### **Segment information**

The Corporation manages its business on the basis of one operating segment, which is also the Corporation's only reportable segment, which is consistent with the internal reporting provided to the chief operating decision-maker. The Corporation operates in Canada, which is its country of domicile.

# **Dollarama Inc.**

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### **3 Summary of significant accounting policies (cont'd)**

#### **Financial assets**

The Corporation classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### **a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets carried at fair value through profit or loss are initially and subsequently recognized at fair value; transaction costs are expensed in earnings.

#### **b) Loans and receivables**

Loans and receivables comprise cash and cash equivalents and accounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are neither quoted on an active market nor intended for trading. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

#### **Financial liabilities**

Financial liabilities comprise accounts payable and accrued liabilities, dividend payable, derivative financial instruments, and long-term debt.

Long-term debt is recognized initially at fair value, net of recognized transaction costs, and is subsequently measured at amortized cost, being the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statement of net earnings and comprehensive income (loss) at the effective interest rate method.

Fees paid on the establishment of revolving credit facilities are capitalized as a prepayment for liquidity services and amortized over the period of the facility to which they relate.

Financial liabilities are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the financial liabilities for at least 12 months after the statement of financial position date.

#### **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

# **Dollarama Inc.**

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### **3 Summary of significant accounting policies (cont'd)**

#### **Derivative financial instruments**

The Corporation may use derivative financial instruments in the management of its foreign currency risk on purchases. The Corporation may also use derivative financial instruments in the management of its interest rate exposure. The Corporation designates certain derivatives as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge).

When hedge accounting is applied, the Corporation documents at inception the relationships between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to specific assets and liabilities on the consolidated statement of financial position or to specific firm commitments or forecasted transactions. The Corporation also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in shareholders' equity. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### **Cash flow hedges**

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. Amounts accumulated in shareholders' equity are reclassified to earnings in the periods when the hedged item affects earnings (the vast majority of the reclassification occurs in the first 12 months following the settlement of the derivative financial instrument). The gain or loss relating to the effective portion of the derivatives is recognized as part of cost of sales in the consolidated statement of net earnings and comprehensive income (loss).

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' equity at that time remains in shareholders' equity and is recognized when the forecast transaction is ultimately recognized in earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to earnings.

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

#### **Derivatives where hedge accounting is not applied**

Derivative financial instruments which are not designated as hedges or have ceased to be effective prior to maturity are recorded at their estimated fair values under assets or liabilities, with changes in their estimated fair values recorded in earnings.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 3 Summary of significant accounting policies (cont'd)

#### Property, plant and equipment

Property, plant and equipment are carried at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Store and warehouse equipment	10 to 15 years
Vehicles	5 years
Building and roof	20 - 50 years
Leasehold improvements	Lease term
Computer equipment	5 years

The Corporation recognizes in the carrying amount of property, plant and equipment the full purchase price of assets acquired or constructed as well as the costs incurred that are directly incremental as a result of the construction of a specific asset, when they relate to bringing the asset into working condition.

The Corporation also capitalizes the cost of replacing parts of an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. If the expected residual value of an asset is equal to or greater than its carrying value, depreciation on that asset is ceased. Depreciation is resumed when the expected residual value falls below the asset's carrying value. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized directly in the consolidated statement of net earnings and comprehensive income (loss).

#### Goodwill and intangible assets

The Corporation classifies intangible assets into three categories: (1) intangible assets with finite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill.

##### Intangible assets with finite lives subject to amortization

The Corporation determines the useful lives of identifiable intangible assets based on the specific facts and circumstances related to each intangible asset. Finite life intangibles are carried at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	5 years
Deferred leasing costs	Lease term

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### **3 Summary of significant accounting policies (cont'd)**

The Corporation recognizes in the carrying amount of intangible assets with finite lives subject to amortization the full purchase price of the intangible assets developed or acquired as well as other costs incurred that are directly incremental as a result of the development of a specific intangible asset, when they relate to bringing the asset into working condition.

Intangible assets with indefinite lives not subject to amortization

The trade name is the Corporation's only intangible asset with indefinite life not subject to amortization. The trade name is recorded at cost and is not subject to amortization, having an indefinite life. It is tested for impairment annually, as of the statement of financial position date, or more frequently if events or circumstances indicate that it may be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. As the trade name does not generate cash flows that are independent from other assets or individual cash-generating units ("CGUs" or "CGU"), trade name is allocated to one group of CGUs that is expected to benefit from the business combination, and which represents the lowest level within the Corporation at which trade name is monitored for internal management purposes.

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates, and represents the excess of the consideration transferred over the share of the net identifiable assets acquired of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is subsequently measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, as at the statement of financial position date, or more frequently if events or circumstances indicate that it may be impaired. For the purposes of annual impairment testing, goodwill is allocated to one group of CGUs that is expected to benefit from the business combination, and which represents the lowest level within the Corporation at which goodwill is monitored for internal management purposes.

#### **Impairment of non-financial assets**

Assets that are subject to amortization are periodically reviewed for indicators of impairment. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, the asset or CGU is tested for impairment. To the extent that the asset or CGU's carrying amount exceeds its recoverable amount, an impairment loss is recognized in the consolidated statement of net earnings and comprehensive income (loss). The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. The fair value is the price that could be received for an asset or CGU in an orderly transaction between market participants at the measurement date, less costs of disposal. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs – these are individual stores). Management undertakes an assessment of relevant market data, which includes the current publicly quoted market capitalization of the Corporation.

#### **Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments with original maturities from the date of purchase of three months or less.

# **Dollarama Inc.**

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### **3 Summary of significant accounting policies (cont'd)**

#### **Merchandise inventories**

Merchandise inventories at the distribution centre, warehouses and stores are measured at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis and is assigned to store inventories using the retail inventory method. Costs of inventories include amounts paid to suppliers, duties and freight into the warehouses as well as costs directly associated with warehousing and distribution.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are obligations to pay for goods acquired from suppliers or services rendered by employees and service providers in the ordinary course of business. Accounts payable and accrued liabilities are classified as current liabilities if payment is due or expected within one year or less. Otherwise, they are presented as non-current liabilities.

Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost.

#### **Provisions**

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses.

If the effect of time value of money is material, provisions are measured at the present value of cash flows expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as accretion expense under financing costs in the consolidated statement of net earnings and comprehensive income (loss).

#### **Share capital**

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of shares or options are shown in shareholders' equity as a deduction, net of tax, from the proceeds of issuance.

When the Corporation repurchases common shares under its normal course issuer bid, the portion of the price paid for the common shares that corresponds to the book value of those shares is recognized as a reduction of share capital. The portion of the price paid that is in excess of the book value is recognized as a reduction of retained earnings.

#### **Dividends declared**

Dividend distributions to the Corporation's shareholders are recognized as a liability in the Corporation's consolidated financial statements in the period in which the dividends are declared by the board of directors.

# **Dollarama Inc.**

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### **3 Summary of significant accounting policies (cont'd)**

#### **Employee future benefits**

A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions into a separate legal entity as well as state plans administered by the provincial and federal governments and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement plans are recognized as an expense in earnings when they are due.

The Corporation offers a defined contribution pension plan to eligible employees whereby it matches an employee's contributions up to 5% of the employee's salary, subject to a maximum of 50% of RRSP annual contribution limit.

#### **Short-term employee benefits**

Liabilities for bonus plans are recognized based on a formula that takes into consideration individual performance and contributions to the profitability of the Corporation.

#### **Termination benefits**

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed to providing termination benefits as a result of an offer made.

#### **Income taxes**

The income tax expense for the year comprises current and deferred tax. Tax is recognized in earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in shareholders' equity. In this case, tax is recognized in other comprehensive income or directly in shareholders' equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from initial recognition of goodwill or if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

# **Dollarama Inc.**

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### **3 Summary of significant accounting policies (cont'd)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **Revenue recognition**

The Corporation recognizes revenue from the sale of products or the rendering of services when they are earned, specifically when all the following conditions are met: (1) the significant risks and rewards of ownership are transferred to customers and the Corporation retains neither continuing managerial involvement nor effective control; (2) there is clear evidence that an arrangement exists; (3) the amount of revenues and related costs can be measured reliably; and (4) it is probable that the economic benefits associated with the transaction will flow to the Corporation. The recognition of revenue at the store occurs at the time a customer tenders payment for and takes possession of the merchandise.

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.

#### Gross versus net

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 revenues based on the amounts billed to customers. Otherwise, the Corporation recognizes the net amount that it retains as revenues.

#### **Cost of sales**

Cost of sales includes the cost of merchandise inventories, outbound transportation costs, warehousing and distribution costs, store, warehouse and distribution centre occupancy costs, as well as the transfer from accumulated other comprehensive income of any gains (losses) on qualifying cash flow hedges related to the purchase of merchandise inventories.

#### Vendor rebates

The Corporation records vendor rebates, consisting of volume purchase rebates, when it is probable that they will be received and the amounts are reasonably estimable. The rebates are recorded as a reduction of inventory purchases and are reflected as a reduction of cost of sales in the consolidated statement of net earnings and comprehensive income (loss).

#### **General, administrative and store operating expenses**

The Corporation includes store and head office salaries and benefits, repairs and maintenance, professional fees, store supplies and other related expenses in general, administrative and store operating expenses.



# **Dollarama Inc.**

Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

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## **3 Summary of significant accounting policies (cont'd)**

### **Earnings per common share**

Earnings per common share is determined using the weighted average number of common shares outstanding during the year. Diluted earnings per common share is determined using the treasury share method to evaluate the dilutive effect of share options. Under this method, instruments with a dilutive effect are considered to have been exercised at the beginning of the year, or at the time of issuance, if later, and the proceeds received are considered to have been used to redeem common shares at the average market price during the year.

### **Leases**

#### Finance leases

Assets held under leases which result in the Corporation receiving substantially all the risks and rewards of ownership of the asset ("finance leases") are capitalized at the lower of the fair value of the property and equipment or the estimated present value of the minimum lease payments. The corresponding finance lease obligation is included within interest bearing liabilities. The interest element is amortized using the effective interest rate method.

#### Operating leases

The Corporation leases stores, five warehouses, a distribution centre and corporate headquarters. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Corporation recognizes rental expense incurred and inducements received from landlords on a straight-line basis over the term of the lease. Any difference between the calculated expense and the amounts actually paid is reflected as deferred lease inducements in the Corporation's consolidated statement of financial position. Contingent rental expense is recognized when the achievement of specified sales targets is considered probable.

Deferred leasing costs and deferred tenant allowances are recorded on the consolidated statement of financial position and amortized using the straight-line method over the term of the respective lease.

### **Share-based compensation**

The Corporation recognizes a compensation expense for options granted based on the fair value of the options at the grant date, using the Black-Scholes option pricing model. The options granted by the Corporation vest in tranches (graded vesting); accordingly, the expense is recognized in vesting tranches.

The total amount to be expensed is determined by reference to the fair value of the options granted.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

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(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 3 Summary of significant accounting policies (cont'd)

The impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and retaining an employee of the entity over a specified time period) are excluded from the fair value calculation. Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Corporation revises its estimates of the number of options that are expected to vest based on the non-market performance vesting conditions. The Corporation recognizes the impact of the revision to original estimates, if any, in the consolidated statement of net earnings and comprehensive income (loss), with a corresponding adjustment to contributed surplus.

The option holders have the right to exercise their options on a cash or cashless basis. The cash paid for the shares issued when the options are exercised is credited, together with the related compensation costs, to share capital (nominal value), net of any directly attributable transaction costs.

### 4 Significant new accounting standards not yet adopted

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 provided the Corporation has adopted IFRS 15, "Revenue from Contracts with Customers". 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 10) 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.

<b>Impacted Areas of the Business</b>	<b>Analysis</b>	<b>Impact</b>
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 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). As at January 29, 2017, the current operating leases disclosed in note 10 are in scope with 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 is currently evaluating the impact of IFRS 16 on our information systems.
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 Corporation is currently evaluating the impact of IFRS 16 on our control environment.
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 is currently evaluating the impact of IFRS 16 on our disclosure to stakeholders.

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# Dollarama Inc.

## Notes to Consolidated Financial Statements

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### **4 Significant new accounting standards not yet adopted (cont'd)**

- 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”. IFRS 9 will be effective for years beginning on or after January 1, 2018 with early adoption permitted. The Corporation is in the process of analyzing the impact of the adoption of IFRS 9 on the Corporation’s consolidated statement of financial position and consolidated statements of net earnings and comprehensive income (loss) and cash flows. The impact is not expected to be significant.
- 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”. In September 2015, the IASB deferred the effective date of IFRS 15 from January 1, 2017 to annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is in the process of analyzing the impact of the adoption of IFRS 15 on the Corporation’s consolidated statement of financial position and consolidated statement of net earnings and comprehensive income (loss). The impact is not expected to be significant.

### **5 Critical accounting judgments and estimates**

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.

The following discusses the most significant accounting judgments and estimates that the Corporation made in the preparation of the consolidated financial statements.

#### **Income taxes**

*Judgment* - Judgment is required in determining income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### **Property, plant and equipment**

*Estimate* - Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes, based on additional available information, are accounted for prospectively as a change in accounting estimate.

#### **Valuation of merchandise inventories**

*Estimate* - Store merchandise inventories are valued at the lower of cost and net realizable value, with cost being determined by the retail inventory method. Under the retail inventory method, merchandise inventories are converted to a cost basis by applying an average cost-to-sell ratio. Merchandise inventories that are at the distribution centre or warehouses and inventories that are in transit from suppliers are measured at the lower of cost and net realizable value, with cost determined on a weighted average cost basis.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

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### **5 Critical accounting estimates and judgments (cont'd)**

Merchandise inventories include items that have been marked down to management's best estimate of their net realizable value and are included in cost of sales in the period in which the markdown is determined. The Corporation estimates its inventory provisions based on the consideration of a variety of factors, including quantities of slow-moving or carryover seasonal merchandise on hand, historical markdown statistics, future merchandising plans and inventory shrinkage. The accuracy of the Corporation's estimates can be affected by many factors, some of which are beyond its control, including changes in economic conditions and consumer buying trends.

Historically, the Corporation has not experienced significant differences in its estimates of markdowns compared with actual results. Changes to the inventory provisions can have a material impact on the results of the Corporation.

#### **Impairment of goodwill and trade name**

*Estimate* - Goodwill and trade name are not subject to amortization and are tested for impairment annually or more frequently if events or circumstances indicate that the assets might be impaired. Impairment is identified by comparing the recoverable amount of the CGU to its carrying value. To the extent the CGU's carrying amount exceeds its recoverable amount, an impairment loss is recognized in the consolidated statement of net earnings and comprehensive income (loss).

The recoverable amount of the CGU is based on the fair value less costs of disposal. The fair value is the price that could be received for an asset or CGU in an orderly transaction between market participants at the measurement date, less costs of disposal. Management undertakes an assessment of relevant market data, which includes the current publicly quoted market capitalization of the Corporation.

As at January 29, 2017 and January 31, 2016, impairment reviews were performed by comparing the carrying value of goodwill and the trade name with the recoverable amount of the CGU to which goodwill and the trade name have been allocated. Management determined that there has been no impairment.

#### **Fair value of financial instruments and hedging**

*Estimate* - The fair value of financial instruments is based on current interest rates, foreign exchange rates, credit risk, market value and current pricing of financial instruments with similar terms. The carrying value of financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividend payable, approximates their fair value.

When hedge accounting is used, formal documentation is set up about relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to specific firm commitments or forecasted transactions. As part of the Corporation's hedge accounting, an assessment is made to determine whether the derivatives that arose as hedging instruments are effective in offsetting changes in cash flows of hedged items.

## Dollarama Inc.

### Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

#### 6 Property, plant and equipment

	Land <sup>1)</sup>	Building <sup>1) 2)</sup>	Store and warehouse equipment	Computer equipment	Vehicles	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance January 31, 2016	-	-	316,349	24,596	4,349	249,887	595,181
Additions	22,144	45,779	34,012	13,346	1,163	37,130	153,574
Dispositions	-	-	(36)	(4,050)	(947)	(322)	(5,355)
Balance January 29, 2017	22,144	45,779	350,325	33,892	4,565	286,695	743,400
<b>Accumulated depreciation</b>							
Balance January 31, 2016	-	-	168,517	7,648	1,316	85,475	262,956
Depreciation	-	-	24,111	5,995	927	17,175	48,208
Dispositions	-	-	(8)	(4,050)	(574)	(221)	(4,853)
Balance January 29, 2017	-	-	192,620	9,593	1,669	102,429	306,311
<b>Net book value</b>							
Balance January 29, 2017	22,144	45,779	157,705	24,299	2,896	184,266	437,089
<b>Cost</b>							
Balance February 1, 2015	-	-	286,011	18,968	3,706	211,267	519,952
Additions	-	-	31,367	9,794	1,934	40,136	83,231
Dispositions	-	-	(1,029)	(4,166)	(1,291)	(1,516)	(8,002)
Balance January 31, 2016	-	-	316,349	24,596	4,349	249,887	595,181
<b>Accumulated depreciation</b>							
Balance February 1, 2015	-	-	147,677	8,018	1,308	72,317	229,320
Depreciation	-	-	21,576	3,796	810	14,146	40,328
Dispositions	-	-	(736)	(4,166)	(802)	(988)	(6,692)
Balance January 31, 2016	-	-	168,517	7,648	1,316	85,475	262,956
<b>Net book value</b>							
Balance January 31, 2016	-	-	147,832	16,948	3,033	164,412	332,225

1) Total costs of \$67,923 for the land, building and roof also include racking, fixtures and other equipment that are in the process of being installed. The building itself is now substantially complete.

2) Recognized costs of \$33,295 for the building and roof will start being depreciated as at January 30, 2017, which is when management deemed the building to be substantially available for use. Racking, fixtures and other equipment (including hardware and software) totalling \$12,484 will be reclassified to store and warehouse equipment, computer equipment and computer software at a later date, once depreciation begins.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

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### 7 Intangible assets and goodwill

	Deferred leasing costs \$	Computer software \$	Trade name <sup>1)</sup> \$	Total intangible assets \$	Goodwill \$
<b>Cost</b>					
Balance January 31, 2016	7,046	55,078	108,200	170,324	727,782
Additions	-	12,640	-	12,640	-
Dispositions	-	(4,058)	-	(4,058)	-
Balance January 29, 2017	7,046	63,660	108,200	178,906	727,782
<b>Accumulated amortization</b>					
Balance January 31, 2016	3,490	29,900	-	33,390	-
Amortization	519	9,540	-	10,059	-
Dispositions	-	(4,058)	-	(4,058)	-
Balance January 29, 2017	4,009	35,382	-	39,391	-
<b>Net book value</b>					
Balance January 29, 2017	3,037	28,278	108,200	139,515	727,782
<b>Cost</b>					
Balance February 1, 2015	6,946	47,223	108,200	162,369	727,782
Additions	100	11,099	-	11,199	-
Dispositions	-	(3,244)	-	(3,244)	-
Balance January 31, 2016	7,046	55,078	108,200	170,324	727,782
<b>Accumulated amortization</b>					
Balance February 1, 2015	2,906	25,387	-	28,293	-
Amortization	584	7,757	-	8,341	-
Dispositions	-	(3,244)	-	(3,244)	-
Balance January 31, 2016	3,490	29,900	-	33,390	-
<b>Net book value</b>					
Balance January 31, 2016	3,556	25,178	108,200	136,934	727,782

1) Indefinite life intangibles are not subject to amortization.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

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### 8 Accounts payable and accrued liabilities

	January 29, 2017	January 31, 2016
	\$	\$
Trade accounts payable	56,775	53,347
Employee benefits payable	49,686	50,627
Merchandise inventories in transit	28,613	21,729
Sales tax payable	32,542	29,837
Accrued share repurchases	8,819	-
Rent and other expenses	22,051	10,631
	<u>198,486</u>	<u>166,171</u>

### 9 Long-term debt

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

	January 29, 2017	January 31, 2016
	\$	\$
Senior unsecured notes bearing interest at a fixed annual rate of 2.337% payable in equal semi-annual instalments, maturing July 22, 2021 (the "2.337% Fixed Rate Notes")	525,000	-
Senior unsecured notes bearing interest at a 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 2.337% Fixed Rate Notes, the "Fixed Rate Notes")	400,000	400,000
Senior unsecured notes bearing interest at a variable rate equal to 3-month bankers' acceptance rate (CDOR) plus 54 basis points payable quarterly, maturing May 16, 2017 (the "Series 1 Floating Rate Notes")	274,834	274,834
Unsecured revolving credit facility maturing December 14, 2021 (the "Credit Facility")	130,000	250,000
Less: Unamortized debt issue costs	(4,899)	(4,062)
Accrued interest on the Series 1 Floating Rate Notes and Fixed Rate Notes	<u>3,809</u>	<u>3,542</u>
	1,328,744	924,314
Current portion (includes accrued interest on the Series 1 Floating Rate Notes and Fixed Rate Notes as at year end)	<u>(278,643)</u>	<u>(3,542)</u>
	<u>1,050,101</u>	<u>920,772</u>

#### Fixed Rate Notes

On July 22, 2016, the Corporation issued the 2.337% Fixed Rate Notes at par, for aggregate gross proceeds of \$525,000, by way of private placement, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. Proceeds were used by the Corporation to repay indebtedness outstanding under the Credit Facility and for general corporate purposes. The 2.337% Fixed Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS. The 2.337% Fixed Rate Notes bear interest at a rate of 2.337% per annum, payable in equal semi-annual instalments, in arrears, on January 22 and July 22 of each year until maturity on July 22, 2021.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

### January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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#### 9 Long-term debt (cont'd)

As at January 29, 2017, the carrying value of the 2.337% Fixed Rate Notes was \$523,192 (January 31, 2016 - n/a). The fair value of the 2.337% Fixed Rate Notes as at January 29, 2017 was determined to be \$526,628 valued as a level 2 in the fair value hierarchy (January 31, 2016 - n/a).

As at January 29, 2017, the carrying value of the 3.095% Fixed Rate Notes was \$401,994 (January 31, 2016 - \$401,546). The fair value of the 3.095% Fixed Rate Notes as at January 29, 2017 was determined to be \$410,100 valued as a level 2 in the fair value hierarchy (January 31, 2016 - \$411,444). The 3.095% Fixed Rate Notes are due on November 5, 2018.

#### Floating Rate Notes

As at January 29, 2017, the carrying value of the Series 1 Floating Rate Notes was \$275,249 (January 31, 2016 - \$274,786). The fair value of the Series 1 Floating Rate Notes as at January 29, 2017 was determined to be \$275,059 valued as a level 2 in the fair value hierarchy (January 31, 2016 - \$273,642). The Series 1 Floating Rate Notes are due on May 16, 2017 and therefore are presented as a current liability on the consolidated statement of financial position as at January 29, 2017.

#### Credit Facility

On October 30, 2015, the Corporation and the lenders entered into an amending agreement to the second amended and restated credit agreement dated as of October 25, 2013 (the "Credit Agreement") pursuant to which, among other things, the Corporation received additional commitments from lenders in the amount of \$125,000 pursuant to the accordion feature of the Credit Agreement, for a period ending no later than June 15, 2017, thereby temporarily bringing the total credit available under the revolving facility from \$250,000 to \$375,000.

On January 29, 2016, the Corporation and the lenders entered into another amending agreement to the Credit Agreement pursuant to which the Corporation received new additional commitments from lenders in the amount of \$250,000 for a period ending no later than January 29, 2018, thereby temporarily bringing the total credit available under the Credit Facility from \$375,000 to \$625,000.

Effective July 25, 2016, following the offering of the 2.337% Fixed Rate Notes (the proceeds of which were used to repay indebtedness outstanding under the Credit Facility), the Corporation cancelled \$125,000 of the \$625,000 aggregate amount available under the Credit Facility in order to reduce standby fees payable on the unutilized portion.

On November 21, 2016, the Corporation and the lenders entered into a new amending agreement to the Credit Agreement pursuant to which the term was extended by one year, from December 14, 2020 to December 14, 2021. As a result, initial commitments in the amount of \$250,000 are now available until December 14, 2021. New commitments made by lenders in January 2016, in the amount of \$250,000, remain available until January 29, 2018 only.

Under the Credit Agreement, as amended, the Corporation may, under certain circumstances and subject to receipt of additional commitments from existing lenders or other eligible institutions, request increases to the credit facility up to an aggregate amount, together with all then-existing commitments, of \$1,300,000.



# Dollarama Inc.

## Notes to Consolidated Financial Statements

### January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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#### 9 Long-term debt (cont'd)

##### Credit Facility (cont'd)

As at January 29, 2017, \$130,000 were outstanding under the Credit Facility (January 31, 2016 – \$250,000), other than letters of credit issued for the purchase of inventories, which amounted to \$831 (January 31, 2016 – \$1,000). As at January 29, 2017, the Corporation was in compliance with all of its financial covenants.

#### 10 Leases and commitments

##### a) Operating leases

The basic rent and contingent rent expense of operating leases for stores, warehouses, distribution centre and corporate headquarters included in the consolidated statement of net earnings and comprehensive income (loss) are as follows:

	January 29, 2017	January 31, 2016
	\$	\$
Basic rent	163,784	150,245
Contingent rent	4,624	4,819
	<u>168,408</u>	<u>155,064</u>

##### b) Commitments

As at January 29, 2017, contractual obligations for operating leases amounted to \$1,055,938 (January 31, 2016 – \$975,370). The leases extend, depending on the renewal option, over various years up to the year 2039.

Non-cancellable operating lease rentals are payable as follows:

	January 29, 2017	January 31, 2016
	\$	\$
Less than 1 year	166,859	151,440
Between 1 and 5 years	566,421	502,106
More than 5 years	<u>322,658</u>	<u>321,824</u>
Total	<u>1,055,938</u>	<u>975,370</u>

# Dollarama Inc.

## Notes to Consolidated Financial Statements

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(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 11 Deferred rent and lease inducements

The following table shows the continuity of other liabilities, which consisted of deferred tenant allowances and deferred lease inducements:

	January 29, 2017	January 31, 2016
	\$	\$
Deferred tenant allowances, beginning of year	34,380	28,034
Additions	8,970	11,275
Amortization	(4,795)	(4,929)
Deferred tenant allowances, end of year	<u>38,555</u>	<u>34,380</u>
Deferred lease inducements, beginning of year	37,252	32,441
Additions, net of straight-line rent	6,020	4,811
Deferred lease inducements, end of year	<u>43,272</u>	<u>37,252</u>
	<u>81,827</u>	<u>71,632</u>

### 12 Shareholders' equity

#### a) Share capital

##### Normal course issuer bid

During the 12-month period ended June 16, 2016, the Corporation was authorized to repurchase for cancellation up to 11,797,176 common shares (representing 10% of the public float as at the close of markets on June 9, 2015) (the "2015-2016 NCIB").

On June 8, 2016, the Corporation renewed its normal course issuer bid to repurchase for cancellation up to 5,975,854 common shares (representing 5% of the common shares issued and outstanding as at the close of markets on June 7, 2016) during the 12-month period from June 17, 2016 to June 16, 2017 (the "2016-2017 NCIB").

The total number of common shares repurchased for cancellation under the 2016-2017 NCIB and the 2015-2016 NCIB during the year ended January 29, 2017 amounted to 7,420,168 common shares (January 31, 2016 – 7,729,391 common shares under 2015-2016 NCIB and the NCIB in effect before that) for a total cash consideration of \$705,447 (January 31, 2016 - \$625,367). For the year ended January 29, 2017, the Corporation's share capital was reduced by \$26,669 (January 31, 2016 - \$27,456) and the remaining \$678,778 (January 31, 2016 - \$597,911) was accounted for as a reduction of retained earnings.

## Dollarama Inc.

### Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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#### 12 Shareholders' equity (cont'd)

As part of the 2016-2017 NCIB, the Corporation entered into a specific share repurchase program with a third party on January 10, 2017 to repurchase common shares through daily purchases, subject to the conditions of an issuer bid exemption order issued by the Ontario Securities Commission.

#### b) Common shares authorized

The Corporation is authorized to issue an unlimited number of common shares. All common shares are issued as fully paid and without par value.

Movements in the Corporation's share capital are as follows:

	January 29, 2017		January 31, 2016	
	Number of common shares	Amount \$	Number of common shares	Amount \$
Balance, beginning of year	122,225,104	439,296	129,790,354	462,734
Cancellation under NCIB	(7,420,168)	(26,669)	(7,729,391)	(27,456)
Exercise of share options	246,413	7,639	164,141	4,018
Balance, end of year	115,051,349	420,266	122,225,104	439,296

#### c) Contributed surplus

##### Share-based compensation

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

Outstanding share options under the plan are granted with service requirements (or service conditions). These share options were granted to purchase an equivalent number of common shares. The share options vest at a rate of 20% annually on the anniversary of the grant date.

## Dollarama Inc.

### Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

#### 12 Shareholders' equity (cont'd)

Outstanding and exercisable share options for the years ended on the dates provided below are as follows:

	January 29, 2017		January 31, 2016	
	Number of share options	Weighted average exercise price (\$)	Number of share options	Weighted average exercise price (\$)
<b>Outstanding – beginning of period</b>	2,478,200	42.29	2,263,348	35.71
Granted	420,000	90.59	410,000	71.14
Exercised	(326,200)	38.38	(195,148)	26.55
<b>Outstanding – end of period</b>	<b>2,572,000</b>	<b>50.68</b>	<b>2,478,200</b>	<b>42.29</b>
<b>Exercisable – end of period</b>	<b>946,400</b>	<b>35.35</b>	<b>733,400</b>	<b>32.20</b>

During the year ended January 29, 2017, the Corporation recognized a share-based compensation expense of \$6,932 (January 31, 2016 - \$6,114).

Information relating to share options outstanding and exercisable as at January 29, 2017 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 (\$)
\$6.00-\$8.75	24	17,000	7.29	24	17,000	7.29
\$8.76-\$13.25	35	4,000	11.21	35	4,000	11.21
\$13.26-\$18.89	50	30,000	15.42	50	30,000	15.42
\$18.90-\$27.01	60	235,100	21.88	60	229,900	21.76
\$27.02-\$40.97	75	855,200	36.30	74	401,600	36.12
\$40.98-\$56.17	87	623,000	44.77	86	204,200	44.39
\$56.18-\$71.03	98	377,700	71.03	98	57,700	71.03
\$71.04-\$90.59	110	430,000	90.24	101	2,000	75.49
	<b>85</b>	<b>2,572,000</b>	<b>50.68</b>	<b>73</b>	<b>946,400</b>	<b>35.35</b>

## Dollarama Inc.

### Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

#### 12 Shareholders' equity (cont'd)

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

	January 29, 2017	January 31, 2016
Dividend yield	0.4%	0.5%
Risk-free interest rate	0.8%	0.9%
Expected life	6.3 years	6.3 years
Expected volatility	20.7%	19.3%
Weighted average fair value of share options estimated at the grant date	\$18.91	\$13.96

The expected life is estimated using the average of the vesting period and the contractual life of the share options. Expected volatility is estimated based on the Corporation's publicly traded share price.

#### d) Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income include unrealized gains (losses) on derivative financial instruments designated as hedging instruments, net of reclassification adjustments and income tax:

	January 29, 2017	January 31, 2016
	\$	\$
Accumulated other comprehensive income – beginning of year	69,795	66,296
Net change in fair value of foreign exchange forward contracts	(66,840)	(16,467)
Realized gains on foreign exchange forward contracts	16,108	97,921
Foreign exchange gains transferred to earnings	(46,269)	(76,665)
Income tax thereon	25,860	(1,290)
Total other comprehensive income (loss), net of income taxes	(71,141)	3,499
Accumulated other comprehensive income (loss) – end of year	(1,346)	69,795

#### e) Dividends

On March 30, 2016, the Corporation announced that its board of directors had approved an 11.1% increase of the quarterly dividend for holders of its common shares, from \$0.09 per common share to \$0.10 per common share.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

### 12 Shareholders' equity (cont'd)

#### f) Deficit

As at January 29, 2017, the deficit was \$342,957 as a result of: 1) an opening deficit, as at February 1, 2016, of \$62,375; 2) net earnings of \$445,636; 3) dividends declared of \$47,440; and 4) cash paid for the repurchase of common shares under the Corporation's normal course issuer bid of \$678,778. The portion of the price paid by the Corporation to repurchase common shares that is in excess of their book value is recognized as a reduction in retained earnings, whereas the portion of the price paid for the common shares that corresponds to the book value of those shares is recognized as a reduction of share capital. Refer to Note 12 a) for a discussion on the Corporation's normal course issuer bid.

### 13 Income taxes

#### a) Deferred income taxes

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	January 29, 2017	January 31, 2016
	\$	\$
<b>Deferred tax assets</b>		
To be recovered after 12 months	21,977	19,310
To be recovered within 12 months	5,152	3,063
<b>Deferred tax liabilities</b>		
To be settled after 12 months	(144,777)	(131,905)
To be settled within 12 months	(189)	(18,060)
	<u>(117,837)</u>	<u>(127,592)</u>

Gross movement on the deferred income tax liability is as follows:

	January 29, 2017	January 31, 2016
	\$	\$
Deferred income tax liability - beginning of year	127,592	122,184
Credited to consolidated statement of net earnings and comprehensive income (loss)	16,105	4,118
Tax charge relating to components of other comprehensive income (loss)	(25,860)	1,290
Deferred income tax liability - end of year	<u>117,837</u>	<u>127,592</u>

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

### 13 Income taxes (cont'd)

The movement in deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	<b>Deferred tax liabilities</b>			
	<b>Property, plant and equipment</b>	<b>Intangible assets and goodwill</b>	<b>Derivative financial instruments</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>As at February 1, 2015</b>	(18,941)	(100,612)	(22,486)	(142,039)
Charged (credited) to consolidated statement of net earnings and comprehensive income (loss)	(8,613)	(3,739)	5,716	(6,636)
Credited to components of other comprehensive income	-	-	(1,290)	(1,290)
<b>As at January 31, 2016</b>	(27,554)	(104,351)	(18,060)	(149,965)
Charged to consolidated statement of net earnings and comprehensive income (loss)	(7,449)	(5,423)	(7,989)	(20,861)
Credited to components of other comprehensive income	-	-	25,860	25,860
<b>As at January 29, 2017</b>	<u>(35,003)</u>	<u>(109,774)</u>	<u>(189)</u>	<u>(144,966)</u>

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	<b>Deferred tax assets</b>		
	<b>Financing expenses</b>	<b>Other liabilities</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>As at February 1, 2015</b>	3,685	16,170	19,855
Charged to consolidated statement of net earnings and comprehensive income (loss)	(622)	3,140	2,518
<b>As at January 31, 2016</b>	3,063	19,310	22,373
Charged to consolidated statement of net earnings and comprehensive income (loss)	2,089	2,667	4,756
<b>As at January 29, 2017</b>	<u>5,152</u>	<u>21,977</u>	<u>27,129</u>

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 13 Income taxes (cont'd)

#### b) Income taxes

	January 29, 2017	January 31, 2016
	\$	\$
Current tax expense in respect of the current year	150,686	138,716
Deferred tax expense relating to the origination and reversal of temporary differences	16,105	4,118
<b>Income taxes</b>	<b>166,791</b>	<b>142,834</b>

Tax on the Corporation's earnings before income taxes differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

	January 29, 2017	January 31, 2016
	\$	\$
<b>Earnings before income taxes</b>	<b>612,427</b>	<b>527,980</b>
Tax calculated at domestic rates applicable to income in Canada and the Canadian provinces	165,243	141,176
Tax effects of:		
Permanent differences	1,994	1,629
Settlement of previous year's tax assessments	(1,436)	(36)
Other	990	65
<b>Tax expense</b>	<b>166,791</b>	<b>142,834</b>

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 year ended January 29, 2017 was 27.0% (January 31, 2016 – 26.8%). The Corporation's effective income tax rate for the year ended January 29, 2017 was 27.2% (January 31, 2016 – 27.1%).



# Dollarama Inc.

## Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

### 14 Financial instruments

#### *Exposure and management of risk*

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department under practices approved by the board of directors of the Corporation. This department identifies, evaluates and hedges financial risks based on the requirements of the organization. The board of directors provides guidance for overall risk management, covering many areas of risk including but not limited to foreign exchange risk, interest rate risk, credit risk and the use of derivative financial instruments.

#### a) Measurement categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recorded in the consolidated statement of net earnings or comprehensive income (loss). Those categories are, for assets, loans and receivables, as well as fair value through the consolidated statement of net earnings and comprehensive income (loss) and, for liabilities, amortized cost, as well as fair value through the consolidated statement of net earnings and comprehensive income (loss). The following table shows the carrying values of assets and liabilities for each of these categories as at:

	January 29, 2017	January 31, 2016
	\$	\$
<b>Assets</b>		
<b>Loans and receivables</b>		
Cash and cash equivalents	62,015	59,178
Accounts receivable	15,386	11,118
Total loans and receivables	<u>77,401</u>	<u>70,296</u>
<b>Fair value through profit or loss</b>		
Total foreign exchange forward contracts	8,787	67,542
<b>Liabilities</b>		
<b>Amortized cost</b>		
Trade payables and accrued liabilities	158,986	130,812
Dividend payable	11,591	11,087
Finance lease obligations	-	588
Long-term debt	1,328,744	924,314
Total amortized cost	<u>1,499,321</u>	<u>1,066,801</u>
<b>Fair value through profit or loss</b>		
Total foreign exchange forward contracts	8,085	-

# Dollarama Inc.

## Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

### 14 Financial instruments (cont'd)

#### b) Market risk

##### i. *Fair value*

The carrying amounts of financial instruments are presented in the consolidated statement of financial position at fair value or amortized cost according to the Corporation's accounting policies. Current financial assets and liabilities, which include cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair values of obligations under finance lease are approximately equal to their carrying value.

##### ii. *Hierarchy of assessments at fair value*

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, average contract rate, statement of financial position location and estimated fair values of derivative financial instruments as at January 29, 2017 and January 31, 2016 is as follows:

	Contractual nominal value US\$	Average contract rate	Statement of financial position  Location	Fair value - Asset (Liability) Significant other observable inputs (Level 2)	Nature of hedging relationship  Recurring
<b>As at January 29, 2017</b>					
<b>Hedging instruments</b>					
Foreign exchange forward contracts	215,000	1.28	Current assets	8,787	Cash flow hedge
Foreign exchange forward contracts	<u>335,000</u>	1.34	Current liabilities	<u>(8,085)</u>	Cash flow hedge
	<u>550,000</u>	1.31		<u>702</u>	
<b>As at January 31, 2016</b>					
<b>Hedging instruments</b>					
Foreign exchange forward contracts	<u>550,000</u>	1.28	Current assets	<u>67,542</u>	Cash flow hedge

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 are entered into in order to manage the currency fluctuation risk associated with forecasted US dollar merchandise purchases sold in stores.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 14 Financial instruments (cont'd)

The Corporation formally documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedging transactions.

Foreign exchange forward contracts are designated as hedging instruments and recorded at fair value, determined using market prices and other observable inputs. The Corporation designates its foreign exchange forward contracts as hedges of the variability in highly probable future cash flows attributable to a recognized forecasted transaction (cash flow hedges). The fair value of the foreign exchange forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

During the year ended January 29, 2017, a gain of \$46,269 (January 31, 2016 - gain of \$76,665) was reclassified from accumulated other comprehensive income (AOCI) to net earnings. The Corporation has a master netting agreement but no amounts have been netted as at January 29, 2017 or January 31, 2016.

#### *iii. Interest rate risk*

The Corporation's interest rate risk arises from long-term debt. Long-term debt issued at variable rates exposes the Corporation to cash flow interest rate risk. Long-term debt issued at fixed rates exposes the Corporation to fair value interest rate risk.

When appropriate, the Corporation analyzes its interest rate risk exposure. Various scenarios are simulated, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Corporation calculates the impact on earnings of a defined interest rate shift. The Corporation often uses variable-rate debt to finance a portion of its operations and capital expenditures. These obligations expose the Corporation to variability in interest payments due to changes in interest rates.

As at January 29, 2017, the carrying value of the 2.337% Fixed Rate Notes was \$523,192. The carrying value of the 2.337% Fixed Rate Notes was recognized initially at its fair value being \$525,000 plus transaction costs, the total of which is referred to as the amortized cost.

As at January 29, 2017, the carrying value of the 3.095% Fixed Rate Notes was \$401,994. The carrying value of the 3.095% Fixed Rate Notes was recognized initially at its fair value being \$400,000 plus transaction costs, the total of which is referred to as the amortized cost.

As at January 29, 2017, the carrying value of the Series 1 Floating Rate Notes was \$275,249. The carrying value of the Series 1 Floating Rate Notes was recognized initially at its fair value being \$275,000 plus transaction costs, the total of which is referred to as the amortized cost.

The fair value of the 2.337% Fixed Rate Note, the 3.095% Fixed Rate Note and the Series 1 Floating Rate Notes (collectively, the "Senior Unsecured Notes") as at January 29, 2017 were determined to be \$526,628, \$410,100 and \$275,059, respectively. All are valued as a level 2 in the fair value hierarchy. The amortized cost of all Senior Unsecured Notes is measured using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments of the Senior Unsecured Notes through the expected life until maturity.

## **Dollarama Inc.**

### Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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#### **14 Financial instruments (cont'd)**

##### *iv. Foreign exchange risk*

The functional currency of the Corporation is the Canadian dollar (“CAD”). Because cash inflows are primarily denominated in Canadian dollars, the Corporation is exposed to the variability in the CAD/U.S. dollars (“USD”) exchange rate when paying expenses with USD that relate to imported merchandise.

To mitigate this exposure, the Corporation purchases USD forward contracts. These forward contracts are purchased for cash flow hedging as part of our risk management process and are designated as the hedging item of highly probable future purchases of merchandise (the “hedged item”).

At each reporting date, the Corporation performs an assessment of effectiveness of its cash flow hedges to ensure that the hedging relationship, between the hedging instrument and the hedged item, remains highly effective.

As at January 29, 2017, a variation in the CAD of 10% against the USD on monetary accounts in USD would, all other variables constant, have an approximate favorable/unfavorable impact of \$1,024 on net earnings.

##### **c) Credit risk**

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist of cash and cash equivalents, accounts receivable and derivative contracts.

The Corporation offsets the credit risk by depositing its cash and cash equivalents, including restricted cash, with major financial institutions whom have been assigned high credit ratings by internationally recognized credit rating agencies.

The Corporation is exposed to credit risk on accounts receivable from landlords for tenant allowances. In order to reduce this risk, the Corporation may retain rent payments until accounts receivable are fully satisfied.

Finally, the Corporation only enters into derivative contracts with major financial institutions for the purchase of USD forward contracts, as described above, and has master netting agreements in place.

##### **d) Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due.

The Corporation’s funded debts are guaranteed by Dollarama L.P. and Dollarama GP Inc.

The Corporation’s objective is to maintain sufficient liquidity to meet its financial liabilities as they become due and remain compliant with financial covenants under the Credit Facility. The Corporation manages liquidity risk through various means including, monitoring cash balances and planned cash flows generated from operations and used for investing in capital assets.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

### January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

#### 14 Financial instruments (cont'd)

As at January 29, 2017, the Corporation had issued the 3.095% Fixed Rate Notes in the amount of \$400,000 maturing November 5, 2018, the 2.337% Fixed Rate Notes in the amount of \$525,000 maturing July 22, 2021 and the Series 1 Floating Rate Notes in the amount of \$275,000 maturing May 16, 2017. In addition, the Corporation had authorized and available credit in the amount of \$369,169 under its Credit Facility (refer to Note 9).

The table below analyses the Corporation's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as at January 29, 2017. Trade payables and accrued liabilities exclude liabilities that are not contractual (such as income tax liabilities that are created as a result of statutory requirements imposed by governments).

<i>(dollars in thousands)</i>	<b>Less than 3 months</b>	<b>3 months - 1 year</b>	<b>1-5 years</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade payables and accrued liabilities	158,986	-	-	158,986
Dividend payable	11,591	-	-	11,591
Assumed interest on Credit Facility and Series 1 Floating Rate Notes <sup>(1)</sup>	1,986	3,900	11,483	17,369
Principal repayment on Credit Facility	-	-	130,000	130,000
Principal repayment on Series 1 Floating Rate Notes	-	275,000	-	275,000
Principal repayment on 2.337% Fixed Rate Notes	-	-	525,000	525,000
Principal repayment on 3.095% Fixed Rate Notes	-	-	400,000	400,000
Interest payments on 2.337% Fixed Rate Notes	-	12,269	42,942	55,211
Interest payments on 3.095% Fixed Rate Notes	-	12,380	12,380	24,760
	<b>172,563</b>	<b>303,549</b>	<b>1,121,805</b>	<b>1,597,917</b>

<sup>(1)</sup> Based on interest rates in effect as at January 29, 2017.

The following table summarizes the Corporation's off-balance sheet arrangements and commitments as at January 29, 2017.

<i>(dollars in thousands)</i>	<b>Less than 3 months</b>	<b>3 months - 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Obligations under operating leases <sup>(2)</sup>	41,715	125,144	566,421	322,658	1,055,938
Letters of credit	831	-	-	-	831
	<b>42,546</b>	<b>125,144</b>	<b>566,421</b>	<b>322,658</b>	<b>1,056,769</b>

<sup>(2)</sup> Represent the basic annual rent, exclusive of the contingent rentals, common area maintenance, real estate taxes and other charges paid to landlords that, all together, represent approximately 40% of our total lease expenses.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 14 Financial instruments (cont'd)

Other than operating leases obligations and letters of credit described above, the Corporation has no off-balance sheet arrangements or commitments.

#### e) Capital management

The Corporation's capital structure consists of common shares, funded debt, share options to employees and directors, retained earnings and accumulated other comprehensive income. The Corporation manages its capital structure and makes changes pursuant to economic conditions and conditions related to its assets.

	January 29, 2017	January 31, 2016
	\$	\$
Total long-term debt (Note 9)	1,328,744	924,314
6x <sup>(1)</sup> operating leases (Note 10)	1,010,448	930,384
Adjusted total debt	<u>2,339,192</u>	<u>1,854,698</u>
EBITDA	703,258	597,460
Operating leases (Note 10)	168,408	155,064
EBITDAR	<u>871,666</u>	<u>752,524</u>
Adjusted total debt / EBITDAR	<u><b>2.68x</b></u>	<u><b>2.46x</b></u>

<sup>(1)</sup>The 6x factor is used by DBRS Ltd. in its rating methodology to account for the Corporation's operating leases in the calculation of adjusted total debt.

The Corporation monitors capital using a number of financial metrics, including but not limited to:

- the leverage ratio, defined as adjusted total debt (sum of (i) total long-term debt and (ii) 6x operating leases) over consolidated EBITDAR (sum of (i) earnings before interest, taxes, depreciation and amortization and (ii) operating leases).

The Corporation's objectives when managing capital are to:

- provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations; and
- ensure sufficient liquidity to pursue its organic growth strategy.

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 14 Financial instruments (cont'd)

In managing its capital structure, the Corporation monitors performance throughout the year to ensure working capital requirements are funded from operations, available cash on deposit and, where applicable, bank borrowings. The Corporation manages its capital structure and may make adjustments to it in order to support the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust its capital structure, the Corporation may: issue shares or new debt; issue new debt to replace existing debt (with different characteristics); reduce the amount of existing debt; purchase shares for cancellation under a normal course issuer bid; and adjust the amount of dividends paid to shareholders.

The Corporation is subject to financial covenants under the Credit Facility and the trust indenture governing the Senior Unsecured Notes, which are measured on a quarterly basis. These covenants include a leverage ratio and an interest coverage ratio. As at January 29, 2017, the Corporation was in compliance with all such covenants.

### 15 Related party transactions

#### Rent

Rental expenses charged by entities controlled by a director totalled \$18,055 for the year ended January 29, 2017 (January 31, 2016 - \$17,936).

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

#### Land

Land in Montreal, Québec was acquired on February 5, 2016 from a party related to Dollarama at a cost of \$22,144, which was the same price paid by such party in a recent arm's length transaction. The acquisition was made for the purpose of building a 500,000 square-foot warehouse. Construction began in March 2016 and the building itself is substantially complete whereas racking, fixtures and other equipment are in the process of being installed. The building is available for use since January 30, 2017.

#### Compensation of key management and directors

Key management includes the Corporation's Executive Chairman, President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice-President, Import Division.

The remuneration paid to directors and members of key management personnel as well as share-based payments during the years ended on the dates indicated below were as follows:

	January 29, 2017	January 31, 2016
	\$	\$
Short-term benefits	12,862	8,762
Defined contribution plan	64	12
Share-based payments	4,089	3,490
	<u>17,015</u>	<u>12,264</u>

# Dollarama Inc.

## Notes to Consolidated Financial Statements

**January 29, 2017 and January 31, 2016**

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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### 15 Related party transactions (cont'd)

Members of key management may have employment agreements with clauses providing for payment in the event of termination without cause or constructive termination. Please refer to Dollarama's 2016 Management Proxy Circular for details applicable to the Corporation's five most highly compensated individuals, all of whom are part of key management.

### 16 Earnings per share

#### a) Basic

Basic earnings per common share is calculated by dividing the profit attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the year.

	<u>January 29, 2017</u>	<u>January 31, 2016</u>
Net earnings attributable to shareholders of the Corporation	\$445,636	\$385,146
Weighted average number of common shares outstanding during the year ( <i>thousands</i> )	118,998	127,271
Basic net earnings per common share	<u>\$3.75</u>	<u>\$3.03</u>

#### b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. For the share options, the Corporation's only category of dilutive potential common shares, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Corporation's shares) based on the exercise price of outstanding share options. The number of shares as calculated above is then compared with the number of shares that would have been issued assuming the exercise of the share options, plus any unrecognized compensation costs.

	<u>January 29, 2017</u>	<u>January 31, 2016</u>
Net earnings attributable to shareholders of the Corporation and used to determine basic and diluted net earnings per common share	\$445,636	\$385,146
Weighted average number of common shares outstanding during the year ( <i>thousands</i> )	118,998	127,271
Assumed share options exercised ( <i>thousands</i> )	1,245	1,149
Weighted average number of common shares for diluted net earnings per common share ( <i>thousands</i> )	<u>120,243</u>	<u>128,420</u>
Diluted net earnings per common share	<u>\$3.71</u>	<u>\$3.00</u>



# Dollarama Inc.

## Notes to Consolidated Financial Statements

### January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

#### 17 Expenses by nature included in the consolidated statement of net earnings and comprehensive income (loss)

	January 29, 2017	January 31, 2016
	\$	\$
<b>Cost of sales:</b>		
Merchandise, labour, transport and other costs	1,523,272	1,361,125
Occupancy costs	278,663	255,926
Total cost of sales	<u>1,801,935</u>	<u>1,617,051</u>
<b>Depreciation and amortization:</b>		
Depreciation of property, plant and equipment (Note 6)	48,208	40,328
Amortization of intangible assets (Note 7)	9,540	7,757
Total depreciation and amortization	<u>57,748</u>	<u>48,085</u>
<b>Employee benefits:</b>		
Remuneration for services rendered	330,338	315,328
Share options granted to directors and employees (Note 12)	6,932	6,114
Defined contribution plan	4,426	2,208
Total employee benefit expense	<u>341,696</u>	<u>323,650</u>
<b>Financing costs:</b>		
Interest expense and banking fees	31,602	20,094
Amortization of debt issue costs	1,481	1,301
Total financing costs	<u>33,083</u>	<u>21,395</u>

## Dollarama Inc.

### Notes to Consolidated Financial Statements

January 29, 2017 and January 31, 2016

(Expressed in thousands of Canadian dollars, unless otherwise noted)

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#### 18 Consolidated statement of cash flows information

The changes in non-cash working capital components on the dates indicated below are as follows:

	January 29, 2017	January 31, 2016
	\$	\$
Accounts receivable	(4,268)	(1,114)
Deposits and prepaid expenses	1,738	(3,687)
Merchandise inventories	4,480	(61,276)
Accounts payable and accrued liabilities	23,496	17,005
Income taxes payable	(29,041)	20,211
	<u>(3,595)</u>	<u>(28,861)</u>
Cash paid for taxes	179,019	118,440
Cash paid for interest	28,133	17,482

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

#### 19 Events after the reporting period

##### Dividend increase

On March 30, 2017, the Corporation announced that its board of directors had approved a 10% increase of the quarterly dividend for holders of its common shares, from \$0.10 per common share to \$0.11 per common share. This increased quarterly dividend will be paid on May 3, 2017 to shareholders of record at the close of business on April 21, 2017 and is designated as an “eligible dividend” for Canadian tax purposes.

##### Offering of senior unsecured notes

On March 16, 2017, the Corporation issued series 2 floating rate senior unsecured notes due March 16, 2020 (the “Series 2 Floating Rate Notes”) at par, for aggregate gross proceeds of \$225,000, by way of private placement in reliance upon exemptions from the prospectus requirements under applicable securities legislation. Proceeds were used by the Corporation to repay indebtedness outstanding under the Credit Facility and for general corporate purposes. The Series 2 Floating Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS. The Series 2 Floating Rate Notes bear interest at a rate equal to the 3-month bankers’ acceptance rate (CDOR) plus 59 basis points (or 0.59%), set quarterly on the 16<sup>th</sup> day of March, June, September and December of each year. Interest is payable in cash quarterly, in arrears, over the 3-year term on the 16<sup>th</sup> day of March, June, September and December of each year.