



## **DOLLARAMA INC. MANAGEMENT'S DISCUSSION AND ANALYSIS Second Quarter Ended July 31, 2016**

**September 1, 2016**

*The following management's discussion and analysis ("MD&A") dated September 1, 2016 is intended to assist readers in understanding the business environment, strategies, performance and risk factors of Dollarama Inc. (together with its consolidated subsidiaries, referred to as "Dollarama", the "Corporation", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Corporation's financial results for the second quarter ended July 31, 2016. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the second quarter ended July 31, 2016 and the annual audited consolidated financial statements and notes for Fiscal 2016 (as hereinafter defined).*

*Unless otherwise indicated and as hereinafter provided, all financial information in this MD&A as well as the Corporation's unaudited condensed interim consolidated financial statements for the second quarter ended July 31, 2016 have been prepared 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").*

*The Corporation manages its business on the basis of one reportable segment. The functional and reporting currency is the Canadian dollar.*

### **Accounting Periods**

All references to "Fiscal 2015" are to the Corporation's fiscal year ended February 1, 2015; to "Fiscal 2016" are to the Corporation's fiscal year ended January 31, 2016; and to "Fiscal 2017" are to the Corporation's fiscal year ending January 29, 2017.

The Corporation's fiscal year ends on the Sunday closest to January 31 of each year and usually has 52 weeks.

**Forward-Looking Statements**

This MD&A contains certain forward-looking statements about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely” or “potential” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- expectations on net new store openings and general capital expenditures;
- expectations on a sustainable gross margin;
- general increases in administrative and occupancy costs;
- expectations about general, administrative and store operating expenses as a percentage of sales;
- the liquidity position of the Corporation;
- the potential accretive effect of the normal course issuer bid; and
- the construction costs and timeline for the new warehouse.

Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us regarding, among other things, general economic conditions and the competitive environment within the retail industry in Canada, in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, but not limited to, the following factors, which are discussed in greater detail in the “Risks and Uncertainties” section of the Corporation’s most recent annual MD&A and annual information form for Fiscal 2016, both available on SEDAR at [www.sedar.com](http://www.sedar.com): future increases in operating and merchandise costs, inability to sustain assortment and replenishment of merchandise, increase in the cost or a disruption in the flow of imported goods, failure to maintain brand image and reputation, disruption of distribution infrastructure, inventory shrinkage, inability to renew store, warehouse, distribution center and head office leases on favourable terms, inability to increase warehouse and distribution center capacity in a timely manner, seasonality, market acceptance of private brands, failure to protect trademarks and other proprietary rights, foreign exchange rate fluctuations, potential losses associated with using derivative financial instruments, level of indebtedness and inability to generate sufficient cash to service debt, changes in creditworthiness and credit rating and the potential increase in the cost of capital, interest rate risk associated with variable rate indebtedness, competition in the retail industry, general economic conditions, departure of senior executives, failure to attract and retain quality employees, disruption in information technology systems, inability to protect systems against cyber attacks, unsuccessful execution of the growth strategy, holding company structure, adverse weather, natural disasters and geo-political events, unexpected costs associated with current insurance programs, product liability claims and product recalls, litigation and regulatory and environmental compliance.

These factors are not intended to represent a complete list of the factors that could affect us; however, they should be considered carefully. The purpose of the forward-looking statements is to provide the reader with a description of management’s expectations regarding the Corporation’s financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as at September 1, 2016 and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

**GAAP and Non-GAAP Measures**

This MD&A, as well as the Corporation's unaudited condensed interim consolidated financial statements and notes for the second quarter of Fiscal 2017, have been prepared in accordance with GAAP. However, this MD&A also refers to certain non-GAAP measures. The non-GAAP measures used by the Corporation are as follows:

<b>EBITDA</b>	Represents operating income plus depreciation and amortization.
<b>EBITDA margin</b>	Represents EBITDA divided by sales.
<b>Total debt</b>	Represents the sum of long-term debt (including accrued interest as current portion) and other bank indebtedness (if any).
<b>Net debt</b>	Represents total debt minus cash and cash equivalents.
<b>Adjusted retained earnings</b>	Represents deficit plus the excess of (i) the price paid for all common shares repurchased under the Corporation's normal course issuer bids from inception in June 2012 through July 31, 2016 over (ii) the book value of those common shares.

The above-described non-GAAP measures do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP measures provide investors with a supplemental measure of our operating performance and financial position and thus highlight trends in our core business that may not otherwise be apparent when relying solely on GAAP measures. With the exception of adjusted retained earnings, these measures are used to bridge differences between external reporting under GAAP and external reporting that is tailored to the retail industry, and should not be considered in isolation or as a substitute for financial performance measures calculated in accordance with GAAP. Management uses non-GAAP measures in order to facilitate operating and financial performance comparisons from period to period, to prepare annual budgets, to assess our ability to meet our future debt service, capital expenditure and working capital requirements, and to evaluate senior management's performance. Management uses total debt and net debt to calculate the Corporation's indebtedness level, cash position, future cash needs and financial leverage ratios. Adjusted retained earnings is a non-GAAP measure that shows retained earnings without the effect of the excess of (i) the price paid for all common shares repurchased under the Corporation's normal course issuer bids over (ii) the book value of those common shares. We believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Refer to the section entitled "Selected Consolidated Financial Information" of this MD&A for a reconciliation of the non-GAAP measures used and presented by the Corporation to the most directly comparable GAAP measures.

**Recent Event*****Offering of Fixed Rate Senior Unsecured Notes***

On July 22, 2016, the Corporation issued fixed rate senior unsecured notes due July 22, 2021 (the "2.337% Fixed Rate Notes") by way of private placement, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 2.337% Fixed Rate Notes were issued at par for aggregate gross proceeds of \$525.0 million. They bear interest at a fixed annual rate of 2.337%, payable in equal semi-annual instalments over the five-year term. The proceeds of the offering were used to repay indebtedness outstanding under the Corporation's Credit Facility (as hereinafter defined) and for general corporate purposes.

**Overview*****Our Business***

As at July 31, 2016, we operated 1,051 stores in Canada, and we continue to expand our network across the country. Our stores average 9,968 square feet and offer a broad assortment of everyday consumer products, general merchandise and seasonal items, including private label and nationally branded products, at compelling values. Merchandise is sold in individual or multiple units at select fixed price points up to \$4.00 as the range of price points was expanded in August 2016 to gradually include items priced at \$3.50 and \$4.00. All of our stores are corporate-owned and operated, providing a consistent shopping experience, and nearly all are located in high-traffic areas such as strip malls and shopping centers in various locations, including metropolitan areas, mid-sized cities and small towns.

Our strategy is to grow sales, net earnings and cash flows by offering a compelling value proposition on a wide variety of everyday merchandise to a broad base of customers. We continually strive to maintain and improve the efficiency of our operations.

***Key Items in the Second Quarter of Fiscal 2017***

Compared to the second quarter of Fiscal 2016:

- Sales increased by 11.6% to \$729.0 million;
- Comparable store sales<sup>(1)</sup> grew 5.7%, over and above a 7.9% growth the previous year;
- Gross margin<sup>(1)</sup> was unchanged at 38.4% of sales;
- EBITDA<sup>(1)</sup> grew 14.8% to \$168.6 million, or 23.1% of sales, compared to 22.5% of sales;
- Operating income grew 14.5% to \$154.6 million, or 21.2% of sales, compared to 20.7% of sales; and
- Diluted net earnings per common share increased by 18.9%, from \$0.74 to \$0.88.

During the second quarter of Fiscal 2017, the Corporation opened 13 net new stores, compared to 17 net new stores during the corresponding period of the previous fiscal year.

Compared to the first six months of Fiscal 2016:

- Sales increased by 12.4% to \$1,370.0 million;
- Comparable store sales<sup>(1)</sup> grew 6.1%, over and above 7.4% the previous year;
- Gross margin<sup>(1)</sup> was 37.7% of sales, compared to 37.3% of sales;
- EBITDA<sup>(1)</sup> grew 19.7% to \$302.6 million, or 22.1% of sales, compared to 20.7% of sales;
- Operating income grew 19.6% to \$275.0 million, or 20.1% of sales, compared to 18.9% of sales; and
- Diluted net earnings per common share increased by 26.0%, from \$1.23 to \$1.55.

During the first six months of Fiscal 2017, the Corporation opened 21 net new stores compared to 34 net new stores during the corresponding period of the previous fiscal year. The Corporation still plans to open 60 to 70 net new stores by fiscal year end.

**Outlook**

A discussion of management's expectations as to the Corporation's outlook for Fiscal 2017 is contained in the Corporation's press release dated September 1, 2016 under the heading "Outlook". The press release is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.dollarama.com](http://www.dollarama.com).

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<sup>(1)</sup> We refer the reader to the notes in the section entitled "Selected Consolidated Financial Information" of this MD&A for the definition of these items and, when applicable, their reconciliation with the most directly comparable GAAP measure.

**Factors Affecting Our Results of Operations**

***Sales***

We recognize sales at the time the customer tenders payment for and takes possession of the merchandise. All sales are final. Our sales consist of comparable store sales and new store sales. Comparable store sales represent sales of stores, including relocated and expanded stores, open for at least 13 complete fiscal months relative to the same period in the prior fiscal year.

The primary drivers of comparable store sales performance are changes in the number of transactions and average transaction size. To increase comparable store sales, we focus on offering a wide selection of quality merchandise at attractive values in well-designed, consistent and convenient store formats.

Historically, our highest sales results have occurred in the fourth quarter, with December representing the highest proportion of sales. Our sales also generally increase ahead of other holidays and celebrations, such as Easter, St. Patrick's Day, Valentine's Day and Halloween, but we otherwise experience limited seasonal fluctuations in sales and expect this trend to continue. Refer to the section of the annual MD&A dated March 30, 2016 entitled "Risks and Uncertainties" for a discussion about the risks associated with seasonality.

***Cost of Sales***

Our cost of sales consists mainly of merchandise inventory, store occupancy costs and transportation costs (which are variable and proportional to our sales volume) and warehouse and distribution center operating costs. We record vendor rebates consisting of volume purchase rebates when earned. The rebates are recorded as a reduction of inventory purchases at cost, which has the effect of reducing cost of sales.

Although cost increases can negatively affect our business, our multiple price point product offering provides some flexibility to react to cost increases on a timely basis. We have historically reduced our cost of sales by shifting more of our sourcing to low-cost foreign suppliers. During Fiscal 2016, direct overseas sourcing accounted for 56% of our purchases (52% in Fiscal 2015). While we still source a majority of our overseas products from China, we purchase products from over 30 different countries around the world.

Since the Corporation purchases goods in currencies other than the Canadian dollar, our cost of sales is affected by fluctuations of foreign currencies against the Canadian dollar. In particular, we purchase a majority of our imported merchandise from suppliers in China using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the Chinese renminbi against the U.S. dollar and the fluctuation of the U.S. dollar against the Canadian dollar.

While we enter into foreign exchange forward contracts to hedge a significant portion of our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar, generally six to twelve months in advance, we do not hedge our exposure to fluctuations in the value of the Chinese renminbi against the U.S. dollar.

Shipping and transportation costs, including surcharges imposed by provincial governments, are also a significant component of our cost of sales. When fuel costs fluctuate, shipping and transportation costs increase or decrease, as applicable, because the carriers generally pass on such cost changes to the users, although usually not in full or as quickly in the case of cost decreases. Because of the high volatility of fuel costs, it is difficult to forecast the fuel surcharges we may incur from our carriers.

Our occupancy costs are mainly comprised of rental expense for our stores, which has generally increased in Canada over the years. While we continue to feel some pressure on lease rates in certain markets, where demand for prime locations is strong and/or vacancy rates are low, the Corporation believes that it is generally able to negotiate leases at competitive market rates and does not anticipate material rate increases in the short to medium term. Typically, store leases are signed with base terms of ten years and one or more renewal options of five years each.

We strive to maintain a sustainable gross margin, where we believe we can achieve a healthy balance between maximizing returns to shareholders and offering a compelling value to our customers. The gross margin varies on a quarterly basis as a result of fluctuations in product margins, as we refresh approximately 25% to 30% of our offering on an annual basis, and/or fluctuations in logistics and transportation costs, among other factors. The goal remains to actively manage the gross margin to keep the value proposition compelling with a view to stimulating continued sales growth.

***General, Administrative and Store Operating Expenses***

Our general, administrative and store operating expenses ("SG&A") consist of store labour, which is primarily variable and proportional to our sales volume, as well as store maintenance costs, salaries and related benefits of corporate and field management team members, administrative office expenses, professional fees, and other related expenses, all of which are primarily fixed. Although our average store hourly wage rate is higher than the minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs unless we realize offsetting productivity gains and cost reductions. We expect our administrative costs to increase as we continue to build our infrastructure to meet the needs generated by the growth of the Corporation.

***Economic or Industry-Wide Factors Affecting the Corporation***

We operate in the value retail industry, which is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. We compete with other dollar stores but also, and to an even greater extent, with variety and discount stores, convenience stores and mass merchants operating in Canada, many of which operate stores in the areas where we operate, offer products substantially similar to those we offer as a subset of their overall offering and engage in extensive advertising and marketing efforts. Additionally, we compete with a number of companies for prime retail site locations, as well as in attracting and retaining quality employees.

We expect continuing pressure resulting from a number of factors including, but not limited to: merchandise costs, currency exchange fluctuations, instability in the global economy, consumer debt levels and buying patterns, economic conditions, interest rates, fuel prices, utilities costs, weather patterns, market volatility, customer preferences, unemployment, labour costs, inflation, catastrophic events, competitive pressures and insurance costs. A factor affecting both the consumer and business is oil prices. On one hand, higher oil prices could have a dampening effect on consumer spending and result in higher transportation costs. On the other hand, significant and prolonged decreases in oil prices may result in lower transportation costs but could also adversely affect consumer spending as a result of reduced employment in some industries and/or geographic markets.

**DOLLARAMA INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**September 1, 2016**

*Selected Consolidated Financial Information*

The following tables set out selected financial information for the periods indicated. The selected consolidated financial information set out below as at July 31, 2016 and August 2, 2015 has been derived from our unaudited condensed interim consolidated financial statements and related notes.

(dollars and shares in thousands, except per share amounts)

	13-Week Periods Ended		26-Week Periods Ended	
	July 31, 2016 \$	August 2, 2015 \$	July 31, 2016 \$	August 2, 2015 \$
<b>Earnings Data</b>				
Sales	728,968	653,290	1,369,980	1,219,360
Cost of sales	449,391	402,708	853,540	764,988
Gross profit	279,577	250,582	516,440	454,372
SG&A	110,942	103,722	213,888	201,593
Depreciation and amortization	14,006	11,775	27,533	22,926
Operating income	154,629	135,085	275,019	229,853
Financing costs	7,289	4,429	13,923	9,991
Earnings before income taxes	147,340	130,656	261,096	219,862
Income taxes	40,988	35,186	71,592	59,612
Net earnings	106,352	95,470	189,504	160,250
Basic net earnings per common share	\$0.89	\$0.74	\$1.57	\$1.24
Diluted net earnings per common share	\$0.88	\$0.74	\$1.55	\$1.23
Weighted average number of common shares outstanding during the period:				
Basic	119,431	128,433	120,706	129,001
Diluted	120,662	129,538	121,910	130,056
<b>Other Data</b>				
Year-over-year sales growth	11.6%	14.1%	12.4%	13.6%
Comparable store sales growth <sup>(1)</sup>	5.7%	7.9%	6.1%	7.4%
Gross margin <sup>(2)</sup>	38.4%	38.4%	37.7%	37.3%
SG&A as a % of sales <sup>(2)</sup>	15.2%	15.9%	15.6%	16.5%
EBITDA <sup>(3)</sup>	168,635	146,860	302,552	252,779
Operating margin <sup>(2)</sup>	21.2%	20.7%	20.1%	18.9%
Capital expenditures	36,904	21,715	86,056	41,739
Number of stores <sup>(4)</sup>	1,051	989	1,051	989
Average store size (gross square feet) <sup>(4)</sup>	9,968	9,945	9,968	9,945
Declared dividends per common share	\$0.10	\$0.09	\$0.20	\$0.18
<b>As at</b>				
		<b>July 31, 2016</b>	<b>January 31, 2016</b>	
		<b>\$</b>	<b>\$</b>	
<b>Statement of Financial Position Data</b>				
Cash and cash equivalents		107,930	59,178	
Merchandise inventories		436,331	470,195	
Property and equipment		389,253	332,225	
Total assets		1,828,644	1,813,874	
Total non-current liabilities		1,105,481	1,119,996	
Total debt <sup>(5)</sup>		1,203,411	928,376	
Net debt <sup>(6)</sup>		1,095,481	869,198	

**DOLLARAMA INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**September 1, 2016**

<i>(dollars in thousands)</i>	<b>13-Week Periods Ended</b>		<b>26-Week Periods Ended</b>	
	<b>July 31, 2016</b>	<b>August 2, 2015</b>	<b>July 31, 2016</b>	<b>August 2, 2015</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>A reconciliation of operating income to EBITDA is included below:</b>				
Operating income	154,629	135,085	275,019	229,853
Add: Depreciation and amortization	14,006	11,775	27,533	22,926
<b>EBITDA</b>	<b>168,635</b>	<b>146,860</b>	<b>302,552</b>	<b>252,779</b>
<i>EBITDA margin <sup>(3)</sup></i>	<i>23.1%</i>	<i>22.5%</i>	<i>22.1%</i>	<i>20.7%</i>

**A reconciliation of EBITDA to cash flows from operating activities is included below:**

EBITDA	168,635	146,860	302,552	252,779
Financing costs (net of amortization of debt issue costs)	(9,956)	(7,832)	(13,170)	(9,578)
Recognition of realized gains on foreign exchange contracts	(14,562)	(16,504)	(36,345)	(25,414)
Cash settlement of gains on foreign exchange contracts	7,927	23,639	19,758	43,207
Current income taxes	(35,773)	(37,797)	(64,821)	(57,330)
Deferred lease inducements	1,392	1,016	2,628	2,288
Deferred tenant allowances and deferred leasing costs	2,183	2,250	3,513	5,236
Recognition of deferred tenant allowances and deferred leasing costs	(1,092)	(1,352)	(2,133)	(2,299)
Share-based compensation	1,793	1,544	3,403	3,109
Loss on disposal of assets	193	183	184	357
	120,740	112,007	215,569	212,355
Changes in non-cash working capital components	45,356	12,794	(11,049)	(87,042)
<b>Net cash generated from operating activities</b>	<b>166,096</b>	<b>124,801</b>	<b>204,520</b>	<b>125,313</b>

**A reconciliation of long-term debt to total debt is included below as at:**

<i>(dollars in thousands)</i>	<b>As at</b>	
	<b>July 31, 2016</b>	<b>January 31, 2016</b>
	<b>\$</b>	<b>\$</b>
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")	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 "Floating Rate Notes")	274,834	274,834
Unsecured revolving credit facility maturing December 14, 2020 (the "Credit Facility")	-	250,000
Accrued interest on long-term debt	3,577	3,542
<b>Total debt</b>	<b>1,203,411</b>	<b>928,376</b>

**A reconciliation of total debt to net debt is included below:**

Total debt	1,203,411	928,376
Cash and cash equivalents	(107,930)	(59,178)
<b>Net debt</b>	<b>1,095,481</b>	<b>869,198</b>

**A reconciliation of deficit to adjusted retained earnings is included below:**

Deficit	(207,592)	(62,375)
Price paid in excess of book value of common shares repurchased under the NCIB	1,716,213	1,405,506
<b>Adjusted retained earnings <sup>(7)</sup></b>	<b>1,508,621</b>	<b>1,343,131</b>

The deficit as at July 31, 2016 is not a reflection of poor or deteriorating operating performance. It results from the fact that a significant portion of the cash consideration paid for the repurchase of shares under the Corporation's normal course issuer bid is accounted for as a reduction of retained earnings and that the market price at which shares are repurchased significantly exceeds the book value of those shares. Regardless of this accounting treatment, management continues to believe that buying back shares remains an effective strategy to drive shareholder value and constitutes an appropriate use of the Corporation's strong cash flows from operations.

- (1) Comparable store sales growth is a measure of the percentage increase or decrease, as applicable, of the sales of stores, including relocated and expanded stores, open for at least 13 complete fiscal months relative to the same period in the prior fiscal year.
- (2) Gross margin represents gross profit divided by sales. SG&A as a % of sales represents SG&A divided by sales. Operating margin represents operating income divided by sales.
- (3) EBITDA, a non-GAAP measure, represents operating income plus depreciation and amortization. EBITDA margin represents EBITDA divided by sales.
- (4) At the end of the period.
- (5) Total debt, a non-GAAP measure, represents the sum of long-term debt (including accrued interest as current portion) and other bank indebtedness (if any).
- (6) Net debt, a non-GAAP measure, represents total debt minus cash and cash equivalents.
- (7) Adjusted retained earnings represents deficit plus the excess of (i) the price paid for all common shares repurchased under the Corporation's normal course issuer bids from inception in June 2012 through July 31, 2016 over (ii) the book value of those common shares.

## **Results of Operations**

### ***Analysis of Results for the Second Quarter of Fiscal 2017***

The following section provides an overview of our financial performance during the second quarter of Fiscal 2017 compared to the second quarter of Fiscal 2016.

#### ***Sales***

Sales for the second quarter of Fiscal 2017 increased by 11.6% to \$729.0 million, compared to \$653.3 million in the corresponding period of the prior fiscal year. The increase in sales was driven by (i) continued organic sales growth fuelled by comparable store sales growth of 5.7%, over and above comparable store sales growth of 7.9% in the second quarter of Fiscal 2016, and (ii) the growth in the number of stores over the past twelve months, from 989 stores on August 2, 2015 to 1,051 stores on July 31, 2016.

Comparable store sales growth for the second quarter of Fiscal 2017 consisted of a 4.6% increase in the average transaction size and a 1.0% increase in the number of transactions. Generally, new stores take about two years to reach annual sales of approximately \$2.1 million, and achieve an average capital payback period of approximately two years.

In this quarter, 63.9% of our sales originated from products priced higher than \$1.25 compared 59.4% in the corresponding quarter last year. Debit card penetration also increased, as 47.6% of sales were paid with debit cards compared to 46.0% in the corresponding period of the previous fiscal year.

#### ***Gross Margin***

The gross margin was 38.4% of sales in the second quarter of Fiscal 2017, which was the same as the margin reported in the corresponding quarter of the prior year.

#### ***SG&A***

SG&A for the second quarter of Fiscal 2017 was \$110.9 million, a 7.0% increase over \$103.7 million for the second quarter of Fiscal 2016. The increase is primarily related to the continued growth in the total number of stores.

SG&A for the second quarter of Fiscal 2017 represented 15.2% of sales, compared to 15.9% of sales for the second quarter of Fiscal 2016. The improvement of 0.7% in SG&A as a percentage of sales is mainly the result of store labour productivity improvements and the positive scaling impact of strong comparable store sales.

*Depreciation and Amortization*

The depreciation and amortization expense increased by \$2.2 million, from \$11.8 million for the second quarter of Fiscal 2016 to \$14.0 million for the second quarter of Fiscal 2017, due mainly to the depreciation of fixed assets in new stores and to the depreciation of investments made in information technology projects.

*Financing Costs*

Financing costs increased by \$2.9 million, from \$4.4 million for the second quarter of Fiscal 2016 to \$7.3 million for the second quarter of Fiscal 2017. The increase is mainly due to increased borrowings on long-term debt.

*Income Taxes*

Income taxes increased by \$5.8 million, from \$35.2 million for the second quarter of Fiscal 2016 to \$41.0 million for the second quarter of Fiscal 2017 as a result of higher net earnings. 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 rates for the second quarters of Fiscal 2017 and Fiscal 2016 were 26.9% and 26.7%, respectively. The increase in the statutory rate is a result of substantially enacted rate increases in certain provincial jurisdictions. The Corporation's effective tax rates for the second quarters of Fiscal 2017 and Fiscal 2016 were 27.8% and 26.9%, respectively.

*Net Earnings*

Net earnings increased to \$106.4 million, or \$0.88 per diluted common share, in the second quarter of Fiscal 2017, compared to \$95.5 million, or \$0.74 per diluted common share, in the second quarter of Fiscal 2016. The increase in net earnings is mainly the result of an 11.6% increase in sales and lower SG&A as a percentage of sales.

***Analysis of Results for the First Six Months of Fiscal 2017***

The following section provides an overview of our financial performance during the first six months of Fiscal 2017 compared to the first six months of Fiscal 2016.

*Sales*

Sales for the first six months of Fiscal 2017 increased by 12.4% to \$1,370.0 million, compared to \$1,219.4 million in the corresponding period of the prior fiscal year. The increase in sales was driven by (i) continued organic sales growth fuelled by comparable store sales growth of 6.1%, over and above comparable store sales growth of 7.4% in the first six months of Fiscal 2016, and (ii) the growth in the number of stores over the past twelve months, from 989 stores on August 2, 2015 to 1,051 stores on July 31, 2016.

Comparable store sales growth for the first six months of Fiscal 2017 consisted of a 4.2% increase in the average transaction size and a 1.8% increase in the number of transactions.

In the first six months of Fiscal 2017, 62.3% of our sales originated from products priced higher than \$1.25 compared to 57.7% in the corresponding period last year.

*Gross Margin*

The gross margin was 37.7% of sales in the first six months of Fiscal 2017, compared to 37.3% of sales in the first six months of Fiscal 2016. This increase is mainly attributable to slightly higher product margins, the positive scaling impact of strong comparable store sales as well as slightly lower logistics and occupancy costs as a percentage of sales.

Overall, gross margin remains in line with management's expectations as the Corporation continues to strive to maintain a compelling product offering for its customers.

*SG&A*

SG&A for the first six months of Fiscal 2017 was \$213.9 million, a 6.1% increase over \$201.6 million for the first six months of Fiscal 2016. The increase is primarily related to the continued growth in the total number of stores.

SG&A for the first six months of Fiscal 2017 represented 15.6% of sales, compared to 16.5% of sales for the first six months of Fiscal 2016. The improvement of 0.9% in SG&A as a percentage of sales is mainly the result of store labour productivity improvements and the positive scaling impact of strong comparable store sales.

*Depreciation and Amortization*

The depreciation and amortization expense increased by \$4.6 million, from \$22.9 million for the first six months of Fiscal 2016 to \$27.5 million for the first six months of Fiscal 2017. The increase relates to investments in information technology projects and new stores.

*Financing Costs*

Financing costs increased by \$3.9 million, from \$10.0 million for the first six months of Fiscal 2016 to \$13.9 million for the first six months of Fiscal 2017. The increase is mainly due to increased borrowings on long-term debt.

*Income Taxes*

Income taxes increased as a result of higher net earnings by \$12.0 million, from \$59.6 million for the first six months of Fiscal 2016 to \$71.6 million for the first six months of Fiscal 2017. 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 rates for the first six months of Fiscal 2017 and Fiscal 2016 were 26.9% and 26.7%, respectively. The increase in the statutory rate is a result of substantially enacted rate increases in certain provincial jurisdictions. The Corporation's effective tax rates for the first six months of Fiscal 2017 and Fiscal 2016 were 27.4% and 27.1%, respectively.

*Net Earnings*

Net earnings increased to \$189.5 million, or \$1.55 per diluted common share, in the first six months of Fiscal 2017, compared to \$160.3 million, or \$1.23 per diluted common share, in the first six months of Fiscal 2016. The increase in net earnings is mainly the result of a 12.4% increase in sales, a gross margin improvement and lower SG&A as a percentage of sales.

**Summary of Consolidated Quarterly Results**

<i>(dollars in thousands, except per share amounts)</i>	<b>Fiscal 2017</b>		<b>Fiscal 2016</b>				<b>Fiscal 2015</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
<b>Statements of Net Earnings Data</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	728,968	641,012	766,476	664,491	653,290	566,070	669,093	587,968
Cost of sales	449,391	404,149	453,526	398,537	402,708	362,280	409,767	371,807
Gross profit	279,577	236,863	312,950	265,954	250,582	203,790	259,326	216,161
SG&A	110,942	102,946	123,075	111,148	103,722	97,871	108,057	101,342
Depreciation and amortization	14,006	13,527	12,945	12,214	11,775	11,151	10,397	9,781
Operating income	154,629	120,390	176,930	142,592	135,085	94,768	140,872	105,038
Financing costs	7,289	6,634	6,043	5,361	4,429	5,562	5,129	5,249
Earnings before income taxes	147,340	113,756	170,887	137,231	130,656	89,206	135,743	99,789
Income taxes	40,988	30,604	46,067	37,155	35,186	24,426	35,473	26,769
Net earnings	106,352	83,152	124,820	100,076	95,470	64,780	100,270	73,020
<b>Net earnings per common share</b>								
Basic	\$0.89	\$0.68	\$1.01	\$0.79	\$0.74	\$0.50	\$0.77	\$0.55
Diluted	\$0.88	\$0.68	\$1.00	\$0.78	\$0.74	\$0.50	\$0.76	\$0.55

Historically, our lowest sales results have occurred during the first quarter whereas our highest sales results have occurred during the fourth quarter, with December representing the highest proportion of sales. Our sales also generally increase ahead of other holidays and celebrations, such as Easter, St. Patrick's Day, Valentine's Day and Halloween, but we otherwise experience limited seasonal fluctuations and expect this trend to continue. The occurrence of unusually adverse weather causing disruption in our business activities or operations during a peak season such as the winter holidays or around other major holidays and celebrations could have an adverse effect on our distribution network and on store traffic, which could materially adversely affect our business and financial results.

### Liquidity and Capital Resources

#### *Cash Flows for the Second Quarter of Fiscal 2017*

<i>(dollars in thousands)</i>	<b>13-Week Periods Ended</b>		
	<b>July 31, 2016</b>	<b>August 2, 2015</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	166,096	124,801	41,295
Cash flows used in investing activities	(36,981)	(21,496)	(15,485)
Cash flows used in financing activities	(79,723)	(113,194)	33,471
Net change in cash and cash equivalents	49,392	(9,889)	59,281

#### *Cash Flows - Operating Activities*

For the second quarter of Fiscal 2017, cash flows generated from operating activities totalled \$166.1 million, compared to \$124.8 million for the second quarter of Fiscal 2016. This increase is attributable to an increase in working capital as a result of lower inventory as well as timing differences related to the payment of normal operating expenses and taxes.

#### *Cash Flows - Investing Activities*

For the second quarter of Fiscal 2017, cash flows used in investing activities totalled \$37.0 million, compared to \$21.5 million for the second quarter of Fiscal 2016. This increase relates primarily to the construction of a new warehouse in Montreal, Quebec and to investments in new stores.

#### *Cash Flows - Financing Activities*

For the second quarter of Fiscal 2017, cash flows used in financing activities totalled \$79.7 million, compared to \$113.2 million for the second quarter of Fiscal 2016. The increase in the number of shares repurchased under the NCIB in the second quarter of Fiscal 2017 was more than offset by higher borrowings on long-term debt.

**Cash Flows for the First Six Months of Fiscal 2017**

<i>(dollars in thousands)</i>	<b>26-Week Periods Ended</b>		
	<b>July 31, 2016</b>	<b>August 2, 2015</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	204,520	125,313	79,207
Cash flows used in investing activities	(86,003)	(41,358)	(44,645)
Cash flows used in financing activities	(69,765)	(70,037)	272
Net change in cash and cash equivalents	48,752	13,918	34,834

*Cash Flows - Operating Activities*

For the first six months of Fiscal 2017, cash flows generated from operating activities totalled \$204.5 million, compared to \$125.3 million for the first six months of Fiscal 2016. This increase is attributable to higher net earnings and an increase in working capital as a result of lower inventory as well as timing differences related to the payment of normal operating expenses and taxes.

*Cash Flows - Investing Activities*

For the first six months of Fiscal 2017, cash flows used in investing activities totalled \$86.0 million, compared to \$41.4 million for the first six months of Fiscal 2016. This increase relates primarily to the acquisition of land and the construction of a new warehouse in Montreal, Quebec and to investments in new stores.

*Cash Flows - Financing Activities*

For the first six months of Fiscal 2017, cash flows used in financing activities totalled \$69.8 million, compared to \$70.0 million for the first six months of Fiscal 2016. The increase in the number of shares repurchased under the NCIB in the first six months of Fiscal 2017 was offset by higher borrowings on long-term debt.

*Capital Expenditures*

For the second quarter of Fiscal 2017, capital expenditures totalled \$36.9 million, compared to \$21.7 million for the second quarter of Fiscal 2016. The increase is mainly attributable to the construction costs of \$17.6 million related to the new warehouse, partially offset by fewer net new stores opened on a quarter over quarter basis. Recognized costs for the new warehouse are not being depreciated because the building is not yet available for use.

For the first six months of Fiscal 2017, capital expenditures totalled \$86.1 million, compared to \$41.7 million for the first six months of Fiscal 2016. Capital expenditures have increased mainly due to the purchase of land for \$22.1 million and to construction costs of \$28.4 million related to the new warehouse. Recognized costs for the new warehouse are not being depreciated because the building is not yet available for use.

*Capital Resources*

The Corporation generates sufficient cash flows from operating activities to fund its planned growth strategy, service its debt and make dividend payments to shareholders. As at July 31, 2016, the Corporation had \$107.9 million of cash and cash equivalents on hand and \$497.7 million available under the Credit Facility. These available funds provide further funding flexibility to meet any unanticipated cash requirements.

Our ability to pay the principal and interest on, to refinance our indebtedness, or to generate sufficient funds to pay for planned capital expenditures will depend on our future performance, which to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, or other factors that are beyond our control.

Based upon the current strength of our earnings, we believe that cash flows from operations, together with credit available under the Credit Facility, will be adequate to meet our future cash needs. Our assumptions with respect to future liquidity needs may not be correct and funds available to us from the sources described herein may not be sufficient to enable us to service our indebtedness, or cover any shortfall in funding for any unanticipated expenses.

#### *Senior Unsecured Notes*

On July 22, 2016, the Corporation issued the 2.337% Fixed Rate Notes, in the aggregate principal amount of \$525.0 million, on a private placement basis in Canada, 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 Limited ("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. As at July 31, 2016, the carrying value of the 2.337% Fixed Rate Notes was \$522.7 million.

On May 16, 2014, the Corporation issued senior unsecured floating rate notes in the aggregate principal amount of \$150.0 million (the "Original Floating Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Original Floating Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS. The Original Floating Rate Notes bear interest at a rate equal to the 3-month bankers' acceptance rate (CDOR) plus 54 basis points (or 0.54%), set quarterly on the 16<sup>th</sup> day of May, August, November and February of each year. Interest is payable in cash quarterly, in arrears, on the 16<sup>th</sup> day of May, August, November and February of each year until maturity on May 16, 2017. On April 8, 2015, the Corporation issued additional senior unsecured floating rate notes in the aggregate principal amount of \$125.0 million (the "Additional Floating Rate Notes") on the same basis as the Original Floating Rate Notes. The Additional Floating Rate Notes constitute an increase to the Original Floating Rate Notes. The Additional Floating Rate Notes were issued at a discount of 0.336% of the principal amount thereof, for aggregate gross proceeds of \$124.6 million. The Additional Floating Rate Notes bear interest at the same rate as the Original Floating Rate Notes, and interest is payable in cash quarterly, in arrears, concurrently with the payment of interest on the Original Floating Rate Notes. All other terms and conditions applicable to the Original Floating Rate Notes also apply to the Additional Floating Rate Notes, and the Additional Floating Rate Notes are treated as a single series with the Original Floating Rate Notes (collectively, the "Floating Rate Notes"). As at July 31, 2016, the carrying value of the Floating Rate Notes was \$275.1 million.

On November 5, 2013, the Corporation issued the 3.095% Fixed Rate Notes, in the aggregate principal amount of \$400.0 million, on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 3.095% Fixed Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS. The 3.095% Fixed Rate Notes bear interest at a rate of 3.095% per annum, payable in equal semi-annual instalments, in arrears, on May 5 and November 5 of each year until maturity on November 5, 2018. As at July 31, 2016, the carrying value of the 3.095% Fixed Rate Notes was \$401.8 million.

The 2.337% Fixed Rate Notes, the Floating Rate Notes and the 3.095% Fixed Rate Notes (collectively, the "Senior Unsecured Notes") are direct unsecured obligations of the Corporation and rank equally and *pari passu* with all other existing and future unsecured and unsubordinated indebtedness of the Corporation.

The Senior Unsecured Notes are solidarily (jointly and severally) guaranteed, on a senior unsecured basis, as to the payment of principal, interest and premium, if any, and certain other amounts specified in the trust indenture governing them by certain subsidiaries of the Corporation representing combined EBITDA, when aggregated with the EBITDA of the Corporation (on a non-consolidated basis), of at least 80% of the consolidated EBITDA. As at the date hereof, Dollarama L.P. and Dollarama GP Inc. are the only guarantors. So long as any Senior Unsecured Notes remain outstanding and the Credit Facility is in full force and effect, all of the Corporation's subsidiaries that are guarantors from time to time in respect of indebtedness under the Credit Facility will be guarantors in respect of the Senior Unsecured Notes.

*Credit Facility*

On October 25, 2013, the Corporation entered into a second amended and restated credit agreement (the "SAR Credit Agreement") providing for a revolving credit facility (the "Credit Facility"). The Corporation has the option to borrow in Canadian or U.S. dollars.

On October 30, 2015, the Corporation and the lenders entered into an amending agreement to the SAR Credit Agreement pursuant to which (i) the term of the SAR Credit Agreement was extended by one more year, from December 13, 2019 to December 14, 2020, and (ii) the Corporation received additional commitments from lenders in the amount of \$125.0 million pursuant to the accordion feature of the SAR Credit Agreement, for a period ending no later than June 15, 2017, thereby temporarily bringing the total credit available under the Credit Facility from \$250.0 million to \$375.0 million.

On January 29, 2016, the Corporation and the lenders entered into another amending agreement to the SAR Credit Agreement pursuant to which the Corporation received new additional commitments from lenders in the amount of \$250.0 million for a period ending no later than January 29, 2018, thereby temporarily bringing the total credit available under the Credit Facility from \$375.0 million to \$625.0 million.

Effective July 25, 2016, following the offering of 2.337% Fixed Rate Notes (the proceeds of which were used to repay indebtedness outstanding under the Credit Facility), the Corporation cancelled \$125.0 million of the \$625.0 million aggregate amount available under the Credit Facility, which portion was not drawn by the Corporation on that date, in order to reduce standby fees payable on the unutilized portion.

Under the SAR Credit Agreement, as amended on January 29, 2016, 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 \$1,300.0 million.

The applicable margin, ranging from 0% to 2.50% per annum, is calculated based on the senior unsecured credit or debt rating issued to the Corporation by a rating agency. In the event that the Corporation is assigned unsecured credit or debt ratings by two or more rating agencies, then the margin shall be based on the highest senior unsecured credit or debt rating, provided that if the senior unsecured credit or debt ratings are two or more levels apart, the rating that is one level above the lower of the ratings shall be the applicable rating. If the Corporation fails to have a rating, there will not be an event of default but rather the highest margin shall apply until a rating is obtained.

The SAR Credit Agreement requires the Corporation to respect a minimum interest coverage ratio and a maximum lease-adjusted leverage ratio, each tested quarterly on a consolidated basis. As at July 31, 2016, the Corporation was in compliance with all of its financial covenants.

The Credit Facility is guaranteed by Dollarama L.P. and Dollarama GP Inc. (collectively, with the Corporation, the "Credit Parties"). The SAR Credit Agreement contains restrictive covenants that, subject to certain exceptions, limit the ability of the Credit Parties to, among other things, incur, assume, or permit to exist senior ranking indebtedness or liens, engage in mergers, acquisitions, asset sales or sale-leaseback transactions, alter the nature of the business and engage in certain transactions with affiliates. The SAR Credit Agreement also limits the ability of the Corporation to make loans, declare dividends and make payments on, or redeem or repurchase equity interests if there exists a default or an event of default thereunder.

As at July 31, 2016, no amounts were outstanding under the Credit Facility (January 31, 2016 – \$250.0 million), other than letters of credit issued for the purchase of inventories, which amounted to \$2.3 million (January 31, 2016 – \$1.0 million).

*Contractual Obligations, Off-Balance Sheet Arrangements and Commitments*

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 July 31, 2016. Accounts payable and accrued liabilities exclude liabilities that are not contractual (such as income tax liabilities created as a result of statutory requirements imposed by governments).

<i>(dollars in thousands)</i>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2-5 years \$</b>	<b>Total \$</b>
Accounts payable and accrued liabilities	129,375	-	-	129,375
Dividend payable	11,902	-	-	11,902
Obligations under finance lease	85	-	-	85
Assumed interest on Credit Facility and Floating Rate Notes <sup>(1)</sup>	993	2,981	-	3,974
Principal repayment on Floating Rate Notes	-	275,000	-	275,000
Interest payments on 2.337% Fixed Rate Notes	-	12,270	49,076	61,346
Interest payments on 3.095% Fixed Rate Notes	-	12,380	18,570	30,950
Principal repayment on 2.337% Fixed Rate Notes	-	-	525,000	525,000
Principal repayment on 3.095% Fixed Rate Notes	-	-	400,000	400,000
	<u>142,355</u>	<u>302,631</u>	<u>992,646</u>	<u>1,437,632</u>

<sup>(1)</sup> Based on interest rates in effect as at July 31, 2016.

The following table summarizes the Corporation's off-balance sheet arrangements and commitments as at July 31, 2016.

<i>(dollars in thousands)</i>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2-5 years \$</b>	<b>Over 5 years \$</b>	<b>Total \$</b>
Obligations under operating leases <sup>(2)</sup>	39,056	117,167	532,916	322,710	1,011,849
Letters of credit	2,312	-	-	-	2,312
New warehouse under construction	4,126	-	-	-	4,126
	<u>45,494</u>	<u>117,167</u>	<u>532,916</u>	<u>322,710</u>	<u>1,018,287</u>

<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.

Other than operating leases obligations, letters of credit and the construction of the new warehouse described above, we have no other off-balance sheet arrangements and commitments.

*Financial Instruments*

The Corporation uses derivative financial instruments such as foreign exchange forward contracts to mitigate the risk associated with fluctuations in the U.S. dollar against the Canadian dollar. These derivative financial instruments are used for risk management purposes and are designated as hedges of future forecasted purchases of merchandise.

Currency hedging entails a risk of illiquidity and, to the extent that the U.S. dollar depreciates against the Canadian dollar, the risk of using hedges could result in losses greater than if the hedging had not been used. Hedging arrangements may have the effect of limiting or reducing the total returns to the Corporation if purchases at hedged rates result in lower margins than otherwise earned if purchases had been made at spot rates.

The Corporation documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. Derivative financial instruments designated as hedging instruments are recorded at fair value, determined using market prices and other observable inputs.

In the second quarter of Fiscal 2017, there was no material change to the nature of risks arising from foreign exchange forward contracts and related risk management.

For a complete description of the derivative financial instruments of the Corporation, please refer to Note 7 to the Corporation's unaudited condensed interim consolidated financial statements for the second quarter of Fiscal 2017 and to Note 14 to the Corporation's annual audited consolidated financial statements for Fiscal 2016.

### **Related Party Transactions**

#### ***Property Leases***

We currently lease 20 stores, 5 warehouses, a distribution center and our head office from entities controlled by the Executive Chairman of the Board of Directors, Larry Rossy, or certain of his immediate family members, pursuant to long-term lease agreements. Rental expenses associated with these related-party leases are measured at cost, which equals fair value, being the amount of consideration established at market terms.

Rental expenses charged by entities controlled by Larry Rossy or certain of his immediate family members totalled \$5.3 million and \$11.0 million for the 13-week and 26-week periods ended July 31, 2016, respectively, compared to \$5.2 million and \$10.9 million for the 13-week and 26-week periods ended August 2, 2015, respectively.

#### ***Land***

Land located in Montreal, Quebec was acquired from a party related to Dollarama on February 5, 2016 at a cost of \$22.1 million, the same price paid by such party in a recent arm's length transaction, for the purpose of building a 500,000 square-foot warehouse to accommodate capacity requirements as we continue to expand our store network. Construction began in March 2016, with completion expected towards the end of 2016. The building is expected to be available for use late in the current fiscal year.

### **Critical Accounting Estimates and Judgments**

The preparation of condensed interim consolidated financial statements requires management to make estimates and assumptions using judgment that affect the application of accounting policies and the reported amounts of assets and liabilities, income and 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 significant estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty for the condensed interim consolidated financial statements for the second quarter of Fiscal 2017 were the same as those applied to the audited consolidated financial statements for Fiscal 2016. Refer to Note 5 to the Corporation's annual audited consolidated financial statements for Fiscal 2016 for details.

### **Significant Standards and Interpretations**

The Corporation did not adopt any significant accounting standards or interpretations during the second quarter of Fiscal 2017.

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 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 Corporation is analyzing the new standard to determine its impact on the Corporation's consolidated statement of financial position and consolidated statement of net earnings and comprehensive income.

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 statement of net earnings and comprehensive income and cash flows.

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.

### **Risks and Uncertainties**

Monitoring and improving its operations are constant concerns of the Corporation. In view of this, understanding and managing risks are important parts of the Corporation's strategic planning process. The Board of Directors requires that the Corporation's senior management identify and properly manage the principal risks related to the Corporation's business operations.

The major risks and uncertainties that could materially affect the Corporation's future business results are described in the Corporation's annual MD&A and annual information form for Fiscal 2016 (which are available on SEDAR at [www.sedar.com](http://www.sedar.com)), and are divided into the following categories:

- risks related to business operations;
- financial risks;
- market risks;
- human resources risks;
- technology risks;
- strategy and corporate structure risks;
- business continuity risks; and
- legal and regulatory risks.

The Corporation manages these risks on an ongoing basis and has put in place certain guidelines with the goal of mitigating these in order to lessen their financial impact, and the Corporation maintains cost-effective, comprehensive insurance coverage against most insurable events. The Corporation also gathers and analyzes economic and competitive data on a regular basis and senior management takes these findings into consideration when making strategic and operational decisions. Despite these guidelines and initiatives, the Corporation cannot provide assurances that any such efforts will be successful.

### **Controls and Procedures**

There were no changes in our internal control over financial reporting that occurred during the period beginning on May 2, 2016 and ended on July 31, 2016 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

**Dividend**

On September 1, 2016, the Corporation announced that the Board of Directors had approved a quarterly cash dividend for holders of its common shares of \$0.10 per common share. The Corporation's quarterly cash dividend will be paid on November 2, 2016 to shareholders of record at the close of business on September 30, 2016 and is designated as an "eligible dividend" for Canadian tax purposes.

**Normal Course Issuer Bid**

On March 30, 2016, the Corporation amended the normal course issuer bid launched on June 17, 2015 (the "2015-2016 NCIB") in order to increase the maximum number of common shares that may be repurchased for cancellation to 11,797,176 common shares (representing 10.0% of the Corporation's public float as at the close of markets on June 9, 2015).

At the expiry of the 2015-2016 NCIB on June 16, 2016, the Corporation had repurchased for cancellation repurchase total of 9,561,911 common shares, at a weighted average price of \$85.75 per common share, for a total cash consideration of \$820.0 million.

On June 8, 2016, the Corporation announced that the Board of Directors had approved the renewal of the normal course issuer bid and that the Corporation had received approval from the TSX to purchase for cancellation up to 5,975,854 common shares (representing 5.0% of the 119,517,081 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").

During the second quarter of Fiscal 2017, a total of 2,027,080 common shares were repurchased for cancellation under the 2015-2016 NCIB and the 2016-2017 NCIB, at a weighted average price of \$90.88 per common share, for a total cash consideration of \$184.2 million. Of this number, 1,590,180 common shares were repurchased for cancellation under the 2015-2016 NCIB, at a weighted average price of \$90.89 per common share, for a total cash consideration of \$144.5 million, and 436,900 common shares were repurchased for cancellation under the 2016-2017 NCIB, at a weighted average price of \$90.84 per common share, for a total cash consideration of \$39.7 million. In total, the Corporation's share capital was reduced by \$7.3 million and the remaining \$176.9 million was accounted for as a reduction of retained earnings.

During the first six months of Fiscal 2017, a total of 3,569,146 common shares were repurchased for cancellation under the 2015-2016 NCIB and the 2016-2017 NCIB, at a weighted average price of \$90.64 per common share, for a total cash consideration of \$323.5 million. The Corporation's share capital was reduced by \$12.8 million and the remaining \$310.7 million was accounted for as a reduction of retained earnings.

**Share Information**

The Corporation's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and, as at August 31, 2016, there were 118,557,949 common shares issued and outstanding. In addition, there were 2,697,700 options, each exercisable for one common share, issued and outstanding as at August 31, 2016. Assuming exercise of all outstanding options, there would have been 121,255,649 common shares issued and outstanding on a fully diluted basis as at August 31, 2016.

**Additional Information**

Additional information relating to the Corporation, including the Corporation's current annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Corporation is a publicly traded company listed on the TSX under the symbol "DOL".