DOLLARAMA INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Second Quarter Ended July 29, 2018

September 13, 2018

The following management's discussion and analysis ("MD&A") dated September 13, 2018 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 29, 2018. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the second quarter ended July 29, 2018 and the audited annual consolidated financial statements and notes for Fiscal 2018 (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 29, 2018 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 information on numbers of outstanding common shares and options to purchase common shares as well as earnings per share presented in this MD&A for the 13-week and 26-week periods ended July 30, 2017 has been retrospectively restated to reflect the Share Split (as hereinafter defined). Refer to Note 9 of the Corporation's unaudited condensed interim consolidated financial statements for the period ended July 29, 2018 for additional information.

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

Accounting Periods

All references to "Fiscal 2017" are to the Corporation's fiscal year ended January 29, 2017; to "Fiscal 2018" are to the Corporation's fiscal year ended January 28, 2018; and to "Fiscal 2019" are to the Corporation's fiscal year ending February 3, 2019.

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 or six years, a week is added to the fiscal year. Fiscal 2017 and Fiscal 2018 were both comprised of 52 weeks whereas Fiscal 2019 will be comprised of 53 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 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;
- the impact of minimum wage increases on administrative and store operating expenses;
- the liquidity position of the Corporation; and
- the potential accretive effect of the normal course issuer bid.

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 2018, both available on SEDAR at www.sedar.com: future increases in operating costs (including increases in statutory minimum wages), future increases in merchandise costs (including as a result of tariff disputes), 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 and head office leases on favourable terms, inability to increase warehouse and distribution centre 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 including but not limited to the impact on sales, natural disasters and geopolitical 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 13, 2018 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 2019, 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:

EBITDA	Represents operating income plus depreciation and amortization.
EBITDA margin	Represents EBITDA divided by sales.
Total debt	Represents the sum of long-term debt (including accrued interest as current portion) and other bank indebtedness (if any).
Net debt	Represents total debt minus cash.
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 29, 2018 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 Events

Three-for-One Share Split

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

Amendment to Credit Agreement

On July 27, 2018, the Corporation and the lenders entered into an amending agreement to the Credit Agreement (as hereinafter defined) pursuant to which, among other things, the term of the initial commitments in the amount of $250.0 million was extended by one year, from September 29, 2022 to September 29, 2023 and the term of the commitments made by the lenders in January 2016, in the amount of $250.0 million, was also extended by one year, from September 29, 2019 to September 29, 2020.

Overview

Our Business

As at July 29, 2018, we operated 1,178 stores in Canada, and we continue to expand our network across the country. Our stores average 10,164 square feet and offer a broad assortment of consumer products, general merchandise and seasonal items, including private label and nationally branded products, all at compelling values. Merchandise is sold in individual or multiple units at select fixed price points up to $4.00. All of our stores are corporate-owned and operated, providing a consistent shopping experience, and many 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 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 2019

Compared to the second quarter of Fiscal 2018:

- Sales increased by 6.9% to $868.5 million;
- Comparable store sales(1) grew 2.6 %, over and above a 6.1% growth the previous year;
- Gross margin(1) was 39.7% of sales, compared to 39.6% of sales;
- EBITDA(1) grew 7.9% to $225.8 million, or 26.0% of sales, compared to 25.7% of sales;
- Operating income grew 7.7% to $206.7 million, or 23.8% of sales, compared to 23.6% of sales; and
- Diluted net earnings per common share increased by 13.2%, to $0.43 from $0.38(2).

During the second quarter of Fiscal 2019, the Corporation opened 8 net new stores, compared to 17 net new stores during the corresponding period of the previous fiscal year.

Key Items in the First Six Months of Fiscal 2019

Compared to the first six months of Fiscal 2018:

- Sales increased by 7.1% to $1,624.5 million;
- Comparable store sales(1) grew 2.6%, over and above 5.4% the previous year;
- Gross margin(1) was unchanged at 38.7% of sales;
- EBITDA(1) grew 8.5% to $396.0 million, or 24.4% of sales, compared to 24.1% of sales;
- Operating income grew 8.1% to $358.1 million, or 22.0% of sales, compared to 21.8% of sales; and
- Diluted net earnings per common share increased by 10.6%, to $0.73 from $0.66(2).

During the first six months of Fiscal 2019, the Corporation opened 18 net new stores compared to 30 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.

(1) 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.

(2) Earnings per common share for the 13-week and 26-week periods ended July 30, 2017 reflect the retrospective application of the Share Split. Refer to Note 9 of the Corporation's unaudited condensed interim consolidated financial statements for the period ended July 29, 2018 for additional information.

Outlook

A discussion of management's expectations as to the Corporation's outlook for Fiscal 2019 is contained in the Corporation's press release dated September 13, 2018 under the heading "Outlook". The press release is available on SEDAR at www.sedar.com and on the Corporation's website at www.dollarama.com.

Factors Affecting Results of Operations

Sales

The Corporation recognizes revenue from the sale of products or the rendering of services as the performance obligations are fulfilled.

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

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

Our sales consist of comparable store sales and new store sales as well as sales to third parties.

Comparable store sales represent sales of Dollarama 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 the 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. Sales to third parties represent mainly sales of merchandise to Dollar City, a value retailer with operations in El Salvador, Guatemala and Colombia. The Corporation, through Dollarama International Inc., shares its business expertise and acts as Dollar City's main supplier of merchandise, either as principal or as intermediary, pursuant to an agreement entered into in February 2013.

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 29, 2018 entitled "Risks and Uncertainties" for a discussion about the risks associated with seasonality.

Cost of Sales

Our cost of sales consists mainly of inventory, store occupancy costs, and transportation costs (which are largely variable and proportional to our sales volume) as well as warehouse and distribution centre operating costs. We record vendor rebates consisting of volume purchase rebates when earned. The rebates are recorded as a reduction of inventory purchased at cost, which has the effect of reducing the 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 most of our sourcing to low-cost foreign suppliers. For the first six months of Fiscal 2019, direct overseas sourcing accounted for 56% of our purchases (56% for Fiscal 2018). While we still source a majority of our overseas products from China, we purchase products from over 28 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 in foreign currencies against the Canadian dollar. In particular, we purchase a vast majority of our imported merchandise from suppliers in China with U.S. dollars. Therefore, our cost of sales is impacted indirectly by the fluctuation of the Chinese renminbi against the U.S. dollar and directly by 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 nine 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 on transportation costs, 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 these cost changes to us, 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 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, management 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 general 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 statutory minimum wage, a significant increase in the statutory minimum wage would significantly increase our payroll costs unless we realize offsetting productivity improvements and other store cost reductions.

On November 22, 2017, the Ontario government passed Bill 148, *Fair Workplaces, Better Jobs Act, 2017*. The bill amends a number of provisions of the *Employment Standards Act* and raises the minimum wage to $14 per hour starting January 1, 2018 and then to $15 per hour starting January 1, 2019. Other provinces, including Alberta, Québec and British Columbia, have also announced notable increases in the statutory minimum wage, which have either come into effect recently or are set to come into effect later on in Fiscal 2019 and beyond.

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, tariff disputes (including the current uncertainties surrounding renegotiations of the North American Free Trade Agreement (NAFTA)), 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.

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 29, 2018 and July 30, 2017 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 29, 2018 $	**July 30, 2017 $**	**July 29, 2018 $**	**July 30, 2017 $**
Earnings Data				
Sales	868,453	812,487	1,624,522	1,517,432
Cost of sales	524,041	490,490	995,458	930,113
Gross profit	344,412	321,997	629,064	587,319
SG&A	118,577	112,783	233,055	222,257
Depreciation and amortization	19,130	17,301	37,866	33,846
Operating income	206,705	191,913	358,143	331,216
Net financing costs	11,409	10,225	22,735	19,467
Earnings before income taxes	195,296	181,688	335,408	311,749
Income taxes	53,524	49,888	92,061	85,259
Net earnings	141,772	131,800	243,347	226,490
Basic net earnings per common share (1)	$0.43	$0.39	$0.74	$0.66
Diluted net earnings per common share (1)	$0.43	$0.38	$0.73	$0.66
Weighted average number of common shares outstanding (1):				
Basic	327,314	340,041	327,612	341,577
Diluted	331,645	344,115	332,024	345,588
Other Data				
Year-over-year sales growth	6.9%	11.5%	7.1%	10.8%
Comparable store sales growth (2)	2.6%	6.1%	2.6%	5.4%
Gross margin (3)	39.7%	39.6%	38.7%	38.7%
SG&A as a % of sales (3)	13.7%	13.9%	14.3%	14.6%
EBITDA (4)	225,835	209,214	396,009	365,062
Operating margin (3)	23.8%	23.6%	22.0%	21.8%
Capital expenditures	26,834	29,367	91,108	49,077
Number of stores (5)	1,178	1,125	1,178	1,125
Average store size (gross square feet) (5)	10,164	10,076	10,164	10,076
Declared dividends per common share	$0.04	$0.04	$0.08	$0.07

(dollars in thousands)	13-Week Periods Ended July 29, 2018 $	13-Week Periods Ended July 30, 2017 $	26-Week Periods Ended July 29, 2018 $	26-Week Periods Ended July 30, 2017 $
A reconciliation of operating income to EBITDA is included below:				
Operating income	206,705	191,913	358,143	331,216
Add: Depreciation and amortization	19,130	17,301	37,866	33,846
EBITDA	**225,835**	**209,214**	**396,009**	**365,062**
EBITDA margin (4)	*26.0%*	*25.7%*	*24.4%*	*24.1%*
A reconciliation of EBITDA to cash flows from operating activities is included below:				
EBITDA	225,835	209,214	396,009	365,062
Net financing costs (net of amortization of debt issue costs)	(18,364)	(14,771)	(20,117)	(16,969)
Amortization of bond lock loss	23	-	45	-
Transfer of realized cash flow hedge losses to inventory	-	-	8,646	-
Recognition of realized gains on foreign exchange contracts	-	(2,618)	-	(2,051)
Cash settlement of gains on foreign exchange contracts	-	7,747	-	10,106
Current income taxes	(55,797)	(54,975)	(89,852)	(87,017)
Deferred lease inducements	1,047	1,211	2,209	2,481
Deferred tenant allowances	1,483	2,425	2,146	4,190
Recognition of deferred tenant allowances and deferred leasing costs	(1,252)	(1,134)	(2,510)	(2,252)
Share-based compensation	1,568	1,719	3,208	3,339
Loss on disposal of assets	32	44	123	55
	154,575	148,862	299,907	276,944
Changes in non-cash working capital components	29,443	31,353	(88,633)	(12,569)
Net cash generated from operating activities	**184,018**	**180,215**	**211,274**	**264,375**

	As at July 29, 2018 $	As at January 28, 2018 $
Statement of Financial Position Data		
Cash	181,703	54,844
Inventories	522,838	490,927
Total current assets	750,992	569,969
Property, plant and equipment	544,821	490,988
Total assets	2,172,380	1,934,339
Total current liabilities	635,952	720,945
Total non-current liabilities	1,593,637	1,465,752
Total debt (6)	1,781,617	1,671,192
Net debt (7)	1,599,914	1,616,348
Shareholders' deficit	(57,209)	(252,358)

(dollars in thousands)

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

	As at	
	July 29, 2018	**January 28, 2018**
Senior unsecured notes bearing interest at:	**$**	**$**
Fixed annual rate of 2.203% payable in equal semi-annual instalments, maturing November 10, 2022 (the “2.203% Fixed Rate Notes”)	250,000	250,000
Fixed annual rate of 2.337% payable in equal semi-annual instalments, maturing July 22, 2021 (the “2.337% Fixed Rate Notes”)	525,000	525,000
Fixed annual rate of 3.095% payable in equal semi-annual instalments, maturing November 5, 2018 (the “3.095% Fixed Rate Notes”, and collectively with the 2.203% Fixed Rate Notes and the 2.337% Fixed Rate Notes, the “Fixed Rate Notes”)	400,000	400,000
Variable rate equal to 3-month bankers’ acceptance rate (CDOR) plus 27 basis points payable quarterly, maturing February 1, 2021 (the “Series 3 Floating Rate Notes”)	300,000	-
Variable rate equal to 3-month bankers’ acceptance rate plus 59 basis points payable quarterly, maturing March 16, 2020 (the “Series 2 Floating Rate Notes”)	300,000	300,000
Unsecured revolving credit facility maturing September 29, 2023 (the “Credit Facility”)	-	191,000
Accrued interest on senior unsecured notes	6,617	5,192
Total debt	**1,781,617**	**1,671,192**

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

Total debt	1,781,617	1,671,192
Cash	(181,703)	(54,844)
Net debt	**1,599,914**	**1,616,348**

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

Deficit	(514,511)	(663,421)
Price paid in excess of book value of common shares repurchased under the NCIB	2,942,893	2,874,638
Adjusted retained earnings (8)	**2,428,382**	**2,211,217**

The deficit as at July 29, 2018 is not a reflection of poor or deteriorating operating performance. It results from the fact that a significant portion of the cash consideration 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. As a result, the Corporation’s deficit for accounting purposes was $57.2 million at July 29, 2018. Management believes that buying back shares remains an effective strategy to drive shareholder value and constitutes an appropriate use of the Corporation’s funds.

(1) Per share amounts as at July 30, 2017 and numbers of shares outstanding during the 13-week and 26-week periods ended July 30, 2017 reflect the retrospective application of the Share Split. Refer to Note 9 of the Corporation’s unaudited condensed interim consolidated financial statements for the period ended July 29, 2018 for additional information.
(2) 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.
(3) 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.
(4) EBITDA, a non-GAAP measure, represents operating income plus depreciation and amortization. EBITDA margin represents EBITDA divided by sales.
(5) At the end of the period.
(6) 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).
(7) Net debt, a non-GAAP measure, represents total debt minus cash.
(8) 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 29, 2018 over (ii) the book value of those common shares.

Results of Operations

Analysis of Results for the Second Quarter of Fiscal 2019

The following section provides an overview of our financial performance during the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018.

Sales

Sales for the second quarter of Fiscal 2019 increased by 6.9% to $868.5 million, compared to $812.5 million in the corresponding period of the prior fiscal year. The increase in sales was driven by continued organic sales growth fuelled by comparable store sales growth and an increase in the total number of stores over the past twelve months, from 1,125 stores on July 30, 2017 to 1,178 stores on July 29, 2018.

Comparable store sales grew 2.6% in the second quarter of Fiscal 2019, over and above strong comparable store sales growth of 6.1% in the second quarter of Fiscal 2018. Comparable store sales consisted of a 3.1% increase in average transaction size, over and above a 5.9% increase in the corresponding quarter of Fiscal 2018, and a 0.5% decrease in the number of transactions. The rate of comparable store sales growth in the second quarter of Fiscal 2019 primarily reflects management's decision to minimize price increases in order to deliver an even more compelling value proposition to consumers. Overall sales results were also impacted by lower sales of Canada Day seasonal and related souvenir products, sales of which were exceptionally strong in the second quarter of Fiscal 2018, driven by Canada 150 celebrations. Sales for the second quarter of Fiscal 2019 recaptured the weather-related shortfall in summer seasonal product sales experienced in the first quarter of Fiscal 2019.

New stores, which are not yet comparable stores, reach annual sales of approximately $2.3 million within their first two years of operation, and achieve an average capital payback period of approximately two years.

In this quarter, 70.9% of our sales originated from products priced higher than $1.25, compared to 68.1% in the corresponding quarter last year.

Gross Margin

Gross margin was 39.7% of sales in the second quarter of Fiscal 2019, compared to 39.6% of sales in the second quarter of Fiscal 2018. Gross margin was sustained through changes in the product mix and lower occupancy costs as a percentage of sales. Gross margin includes sales made by the Corporation to Dollar City, as principal, which represent approximately 1% of the Corporation's total sales, and a nominal markup margin.

SG&A

SG&A for the second quarter of Fiscal 2019 was $118.6 million, a 5.1% increase over $112.8 million for the second quarter of Fiscal 2018. The increase is primarily related to the continued growth in the total number of stores.

SG&A for the second quarter of Fiscal 2019 represented 13.7% of sales, compared to 13.9% of sales for the second quarter of Fiscal 2018. The 0.2% improvement is mainly the result of cost-control initiatives implemented last year, for which savings continued to be realized in the second quarter of Fiscal 2019. Labour productivity improvements and scaling also contributed to this improvement, thereby mitigating the impact of minimum wage increases in certain jurisdictions, primarily in Ontario.

Depreciation and Amortization

The depreciation and amortization expense increased by $1.8 million, from $17.3 million for the second quarter of Fiscal 2018 to $19.1 million for the second quarter of Fiscal 2019. This increase relates mainly to investments in information technology projects and new stores.

Net Financing Costs

Net financing costs increased by $1.2 million, from $10.2 million for the second quarter of Fiscal 2018 to $11.4 million for the second quarter of Fiscal 2019. The increase is mainly due to increased borrowings on long-term debt.

Income Taxes

Income taxes increased by $3.6 million, from $49.9 million for the second quarter of Fiscal 2018 to $53.5 million for the second quarter of Fiscal 2019, as a result of higher pre-tax earnings. The statutory income tax rates for the second quarters of Fiscal 2019 and Fiscal 2018 were 27.0% and 26.9%, respectively. The Corporation's effective tax rates for the second quarters of Fiscal 2019 and Fiscal 2018 were 27.4% and 27.5%, respectively.

Net Earnings

Net earnings increased to $141.8 million, or $0.43 per diluted common share, in the second quarter of Fiscal 2019, compared to $131.8 million, or $0.38 per diluted common share (retrospectively restated to reflect the Share Split), in the second quarter of Fiscal 2018. The increase in net earnings is mainly the result of a 6.9% increase in sales, a sustained gross margin and lower SG&A as a percentage of sales. Earnings per share were also positively impacted by the repurchase of shares through the Corporation's normal course issuer bid.

Analysis of Results for the First Six Months of Fiscal 2019

The following section provides an overview of our financial performance during the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018.

Sales

Sales for the first six months of Fiscal 2019 increased by 7.1% to $1,624.5 million, compared to $1,517.4 million in the corresponding period of the prior fiscal year. The increase in sales was driven by continued organic sales growth fuelled by comparable store sales growth and an increase in the total number of stores over the past twelve months, from 1,125 stores on July 30, 2017 to 1,178 stores on July 29, 2018.

Comparable store sales was 2.6% for the first six months of Fiscal 2019, over and above strong comparable store sales growth of 5.4% in the first six months of Fiscal 2018. Comparable store sales consisted of a 3.0% increase in average transaction size, over and above a 6.0% increase in the corresponding periods of Fiscal 2018, and a 0.4% decrease in the number of transactions. The rate of comparable store sales growth in the first six months of Fiscal 2019 primarily reflects management's decision to minimize price increases in order to deliver an even more compelling value proposition to consumers. Overall sales results were also impacted by lower sales of Canada Day seasonal and other related products, sales of which were exceptionally strong in the first six months of Fiscal 2018, driven by Canada 150 celebrations.

In the first six months of Fiscal 2019, 69.2% of our sales originated from products priced higher than $1.25, compared to 66.6% in the corresponding period last year.

Gross Margin

Gross margin remained unchanged at 38.7% of sales in the first six months of Fiscal 2019, compared to the first six months of Fiscal 2018. Gross margin was sustained through changes in the product mix and lower occupancy costs as a percentage of sales. Gross margin includes sales made by the Corporation to Dollar City, as principal, which represent approximately 1% of the Corporation's total sales, and a nominal markup margin.

SG&A

SG&A for the first six months of Fiscal 2019 was $233.1 million, a 4.9% increase over $222.3 million for the first six months of Fiscal 2018. The increase is primarily related to the continued growth in the total number of stores.

SG&A for the first six months of Fiscal 2019 represented 14.3% of sales, compared to 14.6% of sales for the first six months of Fiscal 2018. The improvement of 0.3% in SG&A as a percentage of sales is mainly the result of cost-control initiatives implemented last year, for which savings continued to be realized in the first six months of Fiscal 2019. Labour productivity improvements and scaling also contributed to this improvement, thereby limiting the impact of minimum wage increases in certain jurisdictions, primarily in Ontario.

Depreciation and Amortization

The depreciation and amortization expense increased by $4.1 million, from $33.8 million for the first six months of Fiscal 2018 to $37.9 million for the first six months of Fiscal 2019. The increase relates mainly to investments in information technology projects and new stores.

Net Financing Costs

Net financing costs increased by $3.2 million, from $19.5 million for the first six months of Fiscal 2018 to $22.7 million for the first six months of Fiscal 2019. The increase is mainly due to increased borrowings on long-term debt.

Income Taxes

Income taxes increased by $6.8 million, from $85.3 million for the first six months of Fiscal 2018 to $92.1 million for the first six months of Fiscal 2019, as a result of higher pre-tax 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 rate for the first six months of Fiscal 2019 and Fiscal 2018 was 27.0%. The Corporation's effective tax rates for the first six months of Fiscal 2019 and Fiscal 2018 were 27.4% and 27.3%, respectively.

Net Earnings

Net earnings increased to $243.3 million, or $0.73 per diluted common share, in the first six months of Fiscal 2019, compared to $226.5 million, or $0.66 per diluted common share (retrospectively restated to reflect the Share Split), in the first six months of Fiscal 2018. The increase in net earnings is mainly the result of a 7.1% increase in sales, a sustained gross margin and lower SG&A as a percentage of sales.

Summary of Consolidated Quarterly Results

	Fiscal 2019		Fiscal 2018				Fiscal 2017	
(*dollars in thousands, except per share amounts*)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Statements of Net Earnings Data	$	$	$	$	$	$	$	$
Sales	868,453	756,069	938,075	810,583	812,487	704,945	854,531	738,708
Cost of sales	524,041	471,417	549,355	485,703	490,490	439,623	501,156	447,239
Gross profit	344,412	284,652	388,720	324,880	321,997	265,322	353,375	291,469
SG&A	118,577	114,478	134,920	117,630	112,783	109,474	127,166	116,972
Depreciation and amortization	19,130	18,736	18,705	17,999	17,301	16,545	15,549	14,666
Operating income	206,705	151,438	235,095	189,251	191,913	139,303	210,660	159,831
Net financing costs	11,409	11,326	10,256	10,154	10,225	9,242	10,643	8,517
Earnings before income taxes	195,296	140,112	224,839	179,097	181,688	130,061	200,017	151,314
Income taxes	53,524	38,537	62,011	49,005	49,888	35,371	53,943	41,256
Net earnings	141,772	101,575	162,828	130,092	131,800	94,690	146,074	110,058
Net earnings per common share[(1)]								
Basic	$0.43	$0.31	$0.49	$0.39	$0.39	$0.28	$0.42	$0.31
Diluted	$0.43	$0.31	$0.48	$0.38	$0.38	$0.27	$0.41	$0.31

(1) Per share amounts for Fiscal 2017, Fiscal 2018 and the first quarter of Fiscal 2019 reflect the retrospective application of the Share Split. Refer to Note 9 of the Corporation's unaudited condensed interim consolidated financial statements for the period ended July 29, 2018 for additional information.

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 2019

	13-Week Periods Ended		
(dollars in thousands)	**July 29, 2018**	**July 30, 2017**	**Change**
	$	**$**	**$**
Cash flows from operating activities	184,018	180,215	3,803
Cash flows used in investing activities	(26,661)	(29,204)	2,543
Cash flows used in financing activities	(66,219)	(126,215)	59,996
Net change in cash	91,138	24,796	66,342

Cash Flows - Operating Activities

For the second quarter of Fiscal 2019, cash flows generated from operating activities totalled $184.0 million, compared to $180.2 million for the second quarter of Fiscal 2018. The increase is attributable to higher net earnings.

Cash Flows - Investing Activities

For the second quarter of Fiscal 2019, cash flows used in investing activities totalled $26.7 million, compared to $29.2 million for the second quarter of Fiscal 2018. This decrease relates to a lower number of new store openings in the quarter.

Cash Flows - Financing Activities

For the second quarter of Fiscal 2019, cash flows used in financing activities totalled $66.2 million, compared to $126.2 million for the second quarter of Fiscal 2018, as a result of the Corporation repurchasing fewer shares under the normal course issuer bid.

Cash Flows for the First Six Months of Fiscal 2019

	26-Week Periods Ended		
(dollars in thousands)	**July 29, 2018**	**July 30, 2017**	**Change**
	$	**$**	**$**
Cash flows from operating activities	211,274	264,375	(53,101)
Cash flows used in investing activities	(90,866)	(48,717)	(42,149)
Cash flows from (used in) financing activities	6,451	(198,447)	204,898
Net change in cash	126,859	17,211	109,648

Cash Flows - Operating Activities

For the first six months of Fiscal 2019, cash flows generated from operating activities totalled $211.3 million, compared to $264.4 million for the first six months of Fiscal 2018. This decrease is attributable to a decrease in working capital related to the timing of inventory purchases and tax payments.

Cash Flows - Investing Activities

For the first six months of Fiscal 2019, cash flows used in investing activities totalled $90.9 million, compared to $48.7 million for the first six months of Fiscal 2018. This increase relates primarily to the acquisition by the Corporation of its previously leased distribution centre.

Cash Flows - Financing Activities

For the first six months of Fiscal 2019, cash flows generated from financing activities totalled $6.5 million, compared to $198.5 million of cash used in financing activities for the first six months of Fiscal 2018, as a result of the Corporation repurchasing fewer shares under the normal course issuer bid.

Capital Expenditures

Capital expenditures relate to investments in information technology projects, new stores and investments to expand warehousing and distribution capacity.

For the second quarter of Fiscal 2019, capital expenditures totalled $26.8 million, compared to $29.4 million for the second quarter of Fiscal 2018. This decrease is due to fewer new store openings.

For the first six months of Fiscal 2019, capital expenditures totalled $91.1 million, compared to $49.1 million for the first six months of Fiscal 2018. Capital expenditures increased primarily due to the acquisition by the Corporation of its previously leased distribution centre for $39.0 million as well as costs incurred in connection with the expansion of the distribution centre, partially offset by fewer new store openings.

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 29, 2018, the Corporation had $181.7 million of cash on hand and $496.1 million available under the Credit Facility. These available funds provide funding flexibility to meet unanticipated cash requirements.

Our ability to pay the principal and interest on our debt, to refinance it, 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 operating 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 November 5, 2013, the Corporation issued fixed rate senior unsecured notes in the aggregate principal amount of $400.0 million (the "3.095% Fixed Rate Notes"), 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 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 29, 2018, the carrying value of the 3.095% Fixed Rate Notes was $402.7 million.

On July 22, 2016, the Corporation issued fixed rate senior unsecured notes in the aggregate principal amount of $525.0 million (the "2.337% Fixed Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. 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 29, 2018, the carrying value of the 2.337% Fixed Rate Notes was $523.8 million.

On March 16, 2017, the Corporation issued series 2 floating rate senior unsecured notes in the aggregate principal amount of $225.0 million (the "Original Series 2 Floating Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Original 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 16th day of March, June, September and December of each year. Interest is payable in cash quarterly, in arrears, on the 16th day of March, June, September and December of each year until maturity on March 16, 2020.

On May 10, 2017, the Corporation issued additional series 2 floating rate senior unsecured notes in the aggregate principal amount of $75.0 million (the "Additional Series 2 Floating Rates Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Additional Series 2 Floating Rate Notes constitute an increase to the $225.0 million aggregate principal amount of Original Series 2 Floating Rate Notes issued by the Corporation on March 16, 2017. The Additional Series 2 Floating Rate Notes were issued at a premium of 0.284% of the principal amount thereof, for aggregate gross proceeds of $75.2 million. As at the date of issuance, the effective spread over the 3-month bankers' acceptance rate (CDOR) for the Additional Series 2 Floating Rate Notes was 49 basis points (or 0.49%). Once issued, they bear interest at the same rate as the Original Series 2 Floating Rate Notes, and interest is payable in cash quarterly, in arrears, concurrently with the payment of interest on the Original Series 2 Floating Rate Notes. All other terms and conditions applicable to the Original Series 2 Floating Rate Notes also apply to the Additional Series 2 Floating Rate Notes, and the Additional Series 2 Floating Rate Notes are treated as a single series with the Original Series 2 Floating Rate Notes (collectively, the "Series 2 Floating Rate Notes"). As at July 29, 2018, the carrying value of the Series 2 Floating Rate Notes was $300.3 million.

On May 10, 2017, the Corporation also issued fixed rate senior unsecured notes in the aggregate principal amount of $250.0 million (the "2.203% Fixed Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 2.203% Fixed Rate Notes bear interest at a rate of 2.203% per annum, payable in equal semi-annual instalments, in arrears, on the 10th day of May and November of each year until maturity on November 10, 2022. As at July 29, 2018, the carrying value of the 2.203% Fixed Rate Notes was $250.3 million.

On February 1, 2018, the Corporation issued series 3 floating rate senior unsecured notes in the aggregate principal amount of $300.0 million (the "Series 3 Floating Rates Notes" and, together with the Series 2 Floating Rate Notes, the "Floating Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Series 3 Floating Rate Notes bear interest at a rate equal to the 3-month bankers' acceptance rate (CDOR) plus 27 basis points (or 0.27%), set quarterly on the 1st day of February, May, August and November of each year. Interest is payable in cash quarterly, in arrears, on the 1st day of February, May, August and November of each year until maturity on February 1, 2021. As at July 29, 2018, the carrying value of the Series 3 Floating Rate Notes was $300.5 million.

The 3.095% Fixed Rate Notes, the 2.337% Fixed Rate Notes, the 2.203% Fixed Rate Notes and the Floating 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. All Senior Unsecured Notes are rated BBB, with a stable trend, by DBRS Limited.

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 of certain other amounts specified in the trust indentures 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

The Corporation has access to a $500.0 million unsecured revolving credit facility (the "Credit Facility") made available under the Second Amended and Restated Credit Agreement (the "Credit Agreement"), originally dated as of October 25, 2013, amended successively on December 3, 2013, June 10, 2014, November 3, 2014, October 30, 2015, January 29, 2016, November 21, 2016, June 29, 2017, November 28, 2017 and July 27, 2018.

The July 27, 2018 amendment to the Credit Agreement was aimed at extending the term. The Credit Agreement now expires on September 29, 2023. Commitments in the amount of $250.0 million initially made in 2013 are available until September 29, 2023, and commitments in the amount of $250.0 million made in 2016 are available until September 29, 2020.

Under the Credit Agreement, 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 $1.5 billion.

On July 27, 2018, concurrently with the extension of the term, the formula for calculating the applicable margin was changed. It is no longer based on the senior unsecured credit or debt rating issued to the Corporation by a rating agency but rather on a lease-adjusted leverage ratio reported on a quarterly basis to the lenders. The applicable margin, now calculated based on this lease-adjusted leverage ratio, ranges from 0% to 1.70% per annum.

The 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.

The Credit Facility is guaranteed by Dollarama L.P. and Dollarama GP Inc. (collectively, with the Corporation, the "Credit Parties"). The 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 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 29, 2018, there was no outstanding amount under the Credit Facility (January 28, 2018 - $191.0 million), other than letters of credit issued for the purchase of inventories and a letter of guarantee required by the municipality in connection with the expansion of the distribution centre, which amounted to $3.9 million (January 28, 2018 – $1.1 million). As at July 29, 2018, the Corporation was in compliance with all of its financial covenants.

Contractual Obligations, Off-Balance Sheet Arrangements and Commitments

The table below analyzes 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 29, 2018. 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).

(dollars in thousands)	**Less than 3 Months $**	**3 Months to 1 Year $**	**1-5 Years $**	**Total $**
Trade payables and accrued liabilities	183,936	-	-	183,936
Dividend payable	13,073	-	-	13,073
Obligations under finance lease	148	457	3,385	3,990
Principal repayment on:				
2.203% Fixed Rate Notes	-	-	250,000	250,000
2.337% Fixed Rate Notes	-	-	525,000	525,000
3.095% Fixed Rate Notes	-	400,000	-	400,000
Series 3 Floating Rate Notes	-	-	300,000	300,000
Series 2 Floating Rate Notes	-	-	300,000	300,000
Interest payments on:				
2.203% Fixed Rate Notes	-	5,508	19,276	24,784
2.337% Fixed Rate Notes	-	12,269	24,539	36,808
3.095% Fixed Rate Notes	-	6,190	-	6,190
Credit Facility and Floating Rate Notes [1]	3,540	10,620	17,220	31,380
	200,697	435,044	1,439,420	2,075,161

[1] Based on interest rates in effect as at July 29, 2018.

The following table summarizes the Corporation's off-balance sheet arrangements and commitments as at July 29, 2018.

(dollars in thousands)	**Less than 3 Months $**	**3 Months to 1 Year $**	**1-5 Years $**	**Over 5 Years $**	**Total $**
Obligations under operating leases [2]	45,062	135,186	587,502	293,268	1,061,018
Letters of credit	576	3,300	-	-	3,876
Distribution centre expansion costs commitments	9,125	27,375	3,600	-	40,100
	54,763	165,861	591,102	293,268	1,104,994

[2] 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 total lease expenses.

Other than operating leases obligations, letters of credit and commitments associated with the expansion of the existing distribution centre described above, we have no other off-balance sheet arrangements or 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 also entered into bond forward sale derivatives in January 2018, March 2018, May 2018, June 2018 and July 2018 to manage its exposure to interest rate risk on the upcoming refinancing of the 3.095% Fixed Rates Notes maturing November 5, 2018. These derivatives are also designated as hedging instruments and are recorded on the consolidated statement of financial position at fair value. The effective portion of the change in fair value of the derivatives is recorded to other comprehensive income, and will be reclassified to net earnings over the same period as the hedged interest payments are recorded in earnings. The hedged risk is defined as the variability in cash flows associated with coupons paid on the debt to be issued attributable to movements in the CAD benchmark rate. The CAD benchmark rate consists of the interpolated yield of Government of Canada bond curve with a term corresponding to the expected debt. Cash flows related to the expected bond’s credit spread over the CAD benchmark are not designated as part of the hedging relationship. The debt is anticipated to be issued during the third or fourth quarter of Fiscal 2019 and to have a term of between 2 and 7 years.

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.

There were no material changes to the nature of risks arising from derivatives and related risk management in the second quarter of Fiscal 2019.

For a description of the derivative financial instruments of the Corporation, refer to Note 7 of the Corporation’s unaudited condensed interim consolidated financial statements for the second quarter of Fiscal 2019 and to Note 3 and Note 14 of the Corporation’s audited annual consolidated financial statements for Fiscal 2018.

Related Party Transactions

Property Leases

As at July 29, 2018, the Corporation leased 21 stores, five warehouses and its head office from entities controlled by the Rossy family 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 the Rossy family totalled $4.6 million and $10.1 million for the 13-week and 26-week periods ended July 29, 2018, respectively, compared to $5.3 million and $11.0 million for the 13-week and 26-week periods ended July 30, 2017, respectively. The year-over-year decrease is attributable to the fact that, on February 21, 2018, the Corporation acquired its existing distribution centre, which was previously leased from an entity controlled by the Rossy family.

Property

On February 21, 2018, the Corporation acquired its existing distribution centre, which was previously leased from an entity controlled by the Rossy family, for a total $39.0 million of which $16.8 million accounted for land and $22.2 million for the building. This purchase was a related party transaction at fair value, being the amount of consideration established at market terms, based on an independent appraisal.

Critical Accounting Estimates and Judgments

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

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 2019 were the same as those applied to the audited consolidated financial statements for Fiscal 2018. Refer to Note 5 to the Corporation's audited annual consolidated financial statements for Fiscal 2018 for details.

Significant Standards and Interpretations

a) New and Amended Accounting Standards Adopted

IFRS 9 - Financial Instruments

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

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

Classification

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

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

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

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

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

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

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

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

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

Evaluation

Financial instruments at amortized cost

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

Financial instruments at fair value

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

Impairment

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

Derecognition

Financial assets

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

Financial liabilities

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

Hedge accounting

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

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

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

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

As a result of the adoption of IFRS 9, the Corporation transferred on January 29, 2018 an amount of $8.6 million of accumulated losses previously recognized in accumulated other comprehensive income and included that amount directly in the carrying amount of the inventory (referred to as ‘basis adjustment’). This basis adjustment was not a reclassification adjustment and did not affect the Corporation’s consolidated statement of net earnings and comprehensive income. Furthermore, for the 13-week and 26-week periods ended July 29, 2018, the fair value gains of $8.2 million and $36.5 million, respectively, on foreign exchange forward contracts subject to cash flow hedge accounting that will be subsequently basis adjusted onto the initial carrying amount of non-financial hedged items (foreign-currency-denominated inventory purchases), have been presented as amounts that will not be subsequently reclassified to net earnings.

IFRS 15 - Revenue from Contracts with Customers

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

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

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

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

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

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

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

b) Accounting Standards and Amendments Issued but not yet Adopted

IFRS 16 – Leases

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

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

Impacted Areas of the Business	**Analysis**	**Impact**
Financial Reporting	The analysis includes which contracts will be in scope as well as the options available under the new standard such as whether to early adopt, the two recognition and measurement exemptions and whether to apply the new standard on a full retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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. In addition, the Corporation is working with a third party provider of advisory services. As at July 29, 2018, the vast majority of the operating leases disclosed in Note 12 to these unaudited condensed interim consolidated financial statements are in scope of IFRS 16.
Information Systems	The Corporation is analyzing the need to make changes within its information systems environment to optimize the management of more than 1,000 leases that will fall within the scope of the new standard.	The Corporation has chosen an IT solution for the eventual recognition and measurement of leases in scope. Integration testing began in the third quarter of Fiscal 2018 and was ongoing during the second quarter of Fiscal 2019.
Internal Controls	The Corporation will be performing an analysis of the changes to the control environment as a result of the adoption of IFRS 16.	Towards the end of the second quarter of Fiscal 2019, the Corporation began designing new controls for IFRS 16.
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 has begun communicating the impact of IFRS 16 to internal stakeholders.

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 2018 (which are available on SEDAR at 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 internal control over financial reporting that occurred during the period beginning on April 30, 2018 and ended on July 29, 2018 that have materially affected, or are reasonably likely to materially affect internal control over financial reporting.

Dividend

On September 13, 2018, the Corporation announced that its board of directors had approved a quarterly cash dividend for holders of its common shares of $0.04 per common share. The Corporation's quarterly cash dividend will be paid on October 31, 2018 to shareholders of record at the close of business on October 5, 2018 and is designated as an "eligible dividend" for Canadian tax purposes.

Normal Course Issuer Bid

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

Taking into account the Share Split, during the second quarter of Fiscal 2019, a total of 1,063,841 common shares were repurchased for cancellation under the 2018-2019 NCIB and the normal course issuer bid previously in effect (the "2017-2018 NCIB"), at a weighted average price of $52.10 per common share, for a total cash consideration of $55.4 million. The Corporation's share capital was reduced by $1.3 million and the remaining $54.1 million was accounted for as an increase in deficit.

Taking into account the Share Split, during the 26-week period ended July 29, 2018, a total of 1,347,341 common shares were repurchased for cancellation under the 2017-2018 NCIB and the 2018-2019 NCIB, at a weighted average price of $51.93 per common share, for a total cash consideration of $70.0 million. The Corporation's share capital was reduced by $1.7 million and the remaining $68.3 million was accounted for as an increase in deficit.

Share Information

The Corporation's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized.

As at September 12, 2018, there were 326,826,586 common shares issued and outstanding. In addition, there were 7,551,300 options, each exercisable for one common share, issued and outstanding as at September 12, 2018. Assuming exercise of all outstanding options, there would have been 334,377,886 common shares issued and outstanding on a fully diluted basis as at September 12, 2018.

Additional Information

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