

Dollarama Inc.

Condensed Interim Consolidated Financial
Statements

**For the 13-week and 26-week periods ended
August 2, 2020 and August 4, 2019**

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

Dollarama Inc.

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

	Note	August 2, 2020 \$	February 2, 2020 \$
Assets			
Current assets			
Cash		218,357	90,464
Accounts receivable		22,858	34,965
Prepaid expenses		9,405	9,935
Prepaid income taxes		-	1,767
Inventories		585,752	623,490
Derivative financial instruments	7	4,894	3,876
		<u>841,266</u>	<u>764,497</u>
Non-current assets			
Right-of-use assets	6	1,305,161	1,283,778
Property, plant and equipment		678,492	644,011
Intangible assets		157,077	152,967
Goodwill		727,782	727,782
Equity-accounted investment	5	173,321	143,421
		<u>3,883,099</u>	<u>3,716,456</u>
Liabilities and shareholders' equity (deficit)			
Current liabilities			
Accounts payable and accrued liabilities		286,959	289,254
Short-term borrowings	8	163,547	-
Dividend payable		13,683	13,737
Derivative financial instruments	7	13,370	267
Income taxes payable		63,360	-
Current portion of long-term debt	8	830,711	606,494
Current portion of lease liabilities	6	189,216	182,732
		<u>1,560,846</u>	<u>1,092,484</u>
Non-current liabilities			
Non-current portion of long-term debt	8	745,038	1,270,289
Non-current portion of lease liabilities	6	1,350,462	1,332,016
Derivative financial instruments	7	787	-
Deferred income taxes		111,362	113,863
		<u>3,768,495</u>	<u>3,808,652</u>
Shareholders' equity (deficit)			
Share capital	9	466,493	448,704
Contributed surplus	9	28,494	29,108
Deficit		(372,877)	(574,110)
Accumulated other comprehensive income (loss)		(7,506)	4,102
		<u>114,604</u>	<u>(92,196)</u>
Total liabilities and shareholders' equity (deficit)		<u>3,883,099</u>	<u>3,716,456</u>

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

Dollarama Inc.

Interim Consolidated Statement of Changes in Shareholders' Equity (Deficit) For the 26-week periods ended (Unaudited, expressed in thousands of Canadian dollars, except share amounts)

	Note	Number of common shares	Share capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance – February 2, 2020	9	310,231,037	448,704	29,108	(574,110)	4,102	(92,196)
Net earnings		-	-	-	228,575	-	228,575
Other comprehensive income (loss)		-	-	-	-	(1,114)	(1,114)
Total comprehensive income (loss)		-	-	-	228,575	(1,114)	227,461
Transfer of realized cash flow hedge gains to inventory		-	-	-	-	(10,494)	(10,494)
Dividends declared		-	-	-	(27,342)	-	(27,342)
Share-based compensation	9	-	-	2,498	-	-	2,498
Issuance of common shares	9	894,200	14,677	-	-	-	14,677
Reclassification for the exercise of share options	9	-	3,112	(3,112)	-	-	-
Balance – August 2, 2020		311,125,237	466,493	28,494	(372,877)	(7,506)	114,604
Balance – February 3, 2019	9	314,685,277	408,179	32,450	(765,202)	7,189	(317,384)
Net earnings		-	-	-	246,695	-	246,695
Other comprehensive income		-	-	-	-	6,607	6,607
Total comprehensive income		-	-	-	246,695	6,607	253,302
Transfer of realized cash flow hedge gains to inventory		-	-	-	-	(8,612)	(8,612)
Dividends declared		-	-	-	(27,700)	-	(27,700)
Repurchase and cancellation of common shares	9	(314,223)	(409)	-	(15,096)	-	(15,505)
Share-based compensation	9	-	-	2,715	-	-	2,715
Issuance of common shares	9	430,100	7,171	-	-	-	7,171
Reclassification for the exercise of share options	9	-	1,579	(1,579)	-	-	-
Balance – August 4, 2019		314,801,154	416,520	33,586	(561,303)	5,184	(106,013)

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

Dollarama Inc.

Interim Consolidated Statement of Net Earnings and Comprehensive Income

For the 13-week and 26-week periods ended

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

	Note	13-week periods ended		26-week periods ended	
		August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
		\$	\$	\$	\$
Sales		1,013,592	946,405	1,858,390	1,774,441
Cost of sales	13	568,842	533,162	1,064,589	1,012,307
Gross profit		444,750	413,243	793,801	762,134
General, administrative and store operating expenses		169,337	131,651	307,075	253,774
Depreciation and amortization	13	66,507	59,965	130,482	118,164
Share of net earnings of equity-accounted investment	5	(2,503)	-	(4,877)	-
Operating income		211,409	221,627	361,121	390,196
Financing costs		22,604	24,618	49,806	50,176
Earnings before income taxes		188,805	197,009	311,315	340,020
Income taxes	10	46,309	53,826	82,740	93,325
Net earnings		142,496	143,183	228,575	246,695
Other comprehensive income (loss)					
<i>Items that may be reclassified subsequently to net earnings</i>					
Reclassification of losses on derivative financial instruments not subject to basis adjustments		(94)	(94)	(189)	(189)
Foreign currency translation adjustments		(5,824)	-	(400)	-
Share of other comprehensive income (loss) of equity-accounted investment	5	210	-	(3,654)	-
Income tax recovery relating to these items		31	-	62	-
<i>Items that will not be reclassified subsequently to net earnings</i>					
Unrealized gain (loss) on derivative financial instruments subject to basis adjustments		(33,159)	(7,335)	4,169	9,188
Income tax recovery (expense) relating to these items		8,778	2,030	(1,102)	(2,392)
Total other comprehensive income (loss), net of income taxes		(30,058)	(5,399)	(1,114)	6,607
Total comprehensive income		112,438	137,784	227,461	253,302
Earnings per common share					
Basic net earnings per common share	11	\$0.46	\$0.45	\$0.74	\$0.78
Diluted net earnings per common share	11	\$0.46	\$0.45	\$0.73	\$0.78
Weighted average number of common shares outstanding (thousands)	11	310,748	314,757	310,515	314,729
Weighted average number of diluted common shares outstanding (thousands)	11	312,527	318,533	312,299	318,220

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

Dollarama Inc.

Interim Consolidated Statement of Cash Flows For the 13-week and 26-week periods ended (Unaudited, expressed in thousands of Canadian dollars)

	Note	13-week periods ended		26-week periods ended	
		August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
		\$	\$	\$	\$
Operating activities					
Net earnings		142,496	143,183	228,575	246,695
Adjustments to reconcile net earnings to net cash generated from operating activities:					
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	13	66,507	59,965	130,482	118,164
Amortization of debt issue costs		645	562	1,295	1,109
Recognition of gains and losses on bond lock and bond forward contracts	7	(94)	(94)	(189)	(189)
Share-based compensation	9	1,318	1,300	2,498	2,715
Financing costs on long-term debt		(8,145)	(8,947)	(2,039)	24
Financing costs on short-term borrowings		897	-	1,353	-
Deferred income taxes		-	(374)	(1,201)	5,206
(Gain) loss on disposal of assets		(1,611)	24	(2,675)	(480)
Share of net earnings of equity-accounted investment	5	(2,503)	-	(4,877)	-
		<u>199,510</u>	<u>195,619</u>	<u>353,222</u>	<u>373,244</u>
Changes in non-cash working capital components	14	<u>82,755</u>	<u>(12,855)</u>	<u>113,575</u>	<u>(96,166)</u>
Net cash generated from operating activities		<u>282,265</u>	<u>182,764</u>	<u>466,797</u>	<u>277,078</u>
Investing activities					
Additions to equity-accounted investment	5	(28,002)	-	(28,002)	-
Additions to property, plant and equipment		(26,640)	(25,209)	(69,561)	(51,732)
Additions to intangible assets		(7,862)	(5,153)	(12,939)	(9,310)
Proceeds from disposal of property, plant and equipment		120	181	226	532
Net cash used in investing activities		<u>(62,384)</u>	<u>(30,181)</u>	<u>(110,276)</u>	<u>(60,510)</u>
Financing activities					
Net proceeds (repayments) of short-term borrowings	8	(218,231)	-	164,960	-
Net proceeds (repayments) of credit facilities	8	(277,500)	(5,000)	-	(25,000)
Repayment of Series 2 Floating Rate Notes	8	-	-	(300,000)	-
Payment of debt issue costs		-	(260)	(290)	(260)
Principal elements of lease liabilities	6	(24,021)	(40,041)	(80,579)	(67,795)
Issuance of common shares		9,243	5,825	14,677	7,171
Dividends paid		(13,659)	(13,848)	(27,396)	(26,498)
Repurchase and cancellation of common shares	9	-	(15,505)	-	(15,505)
Net cash generated used in financing activities		<u>(524,168)</u>	<u>(68,829)</u>	<u>(228,628)</u>	<u>(127,887)</u>
Change in cash		<u>(304,287)</u>	<u>83,754</u>	<u>127,893</u>	<u>88,681</u>
Cash – beginning of period		<u>522,644</u>	<u>55,298</u>	<u>90,464</u>	<u>50,371</u>
Cash – end of period		<u>218,357</u>	<u>139,052</u>	<u>218,357</u>	<u>139,052</u>

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

Dollarama Inc.

**Notes to Condensed Interim Consolidated Financial Statements
August 2, 2020**

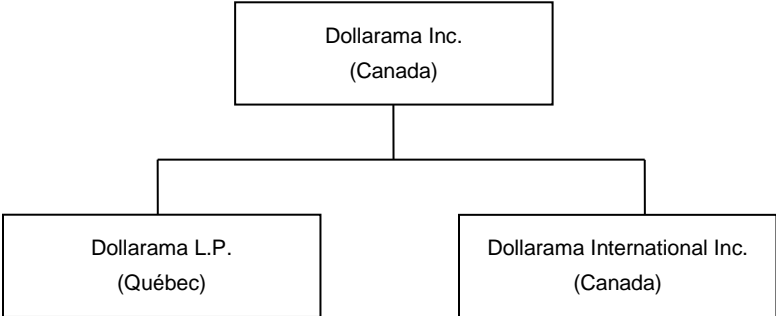
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

1 General information

Dollarama Inc. (the “Corporation”) was formed on October 20, 2004 under the Canada Business Corporations Act. The Corporation offers a broad assortment of general merchandise, consumable products and seasonal items at select, fixed price points up to \$4.00 in-store and online in Canada. As at August 2, 2020, the Corporation maintains retail operations in every Canadian province.

The Corporation’s head and registered office is located at 5805 Royalmount Avenue, Montreal, Quebec, H4P 0A1. The Corporation’s warehousing and distribution operations are also located in the Montreal area. The Corporation is listed on the Toronto Stock Exchange (“TSX”) under the symbol “DOL”.

As at August 2, 2020, the significant entities within the legal structure of the Corporation are as follows:



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

Dollarama International Inc. (“Dollarama International”) has retail operations in Latin America through its 50.1% equity investment in Dollarcity, a value retailer headquartered in Panama. Dollarcity offers a broad assortment of general merchandise, consumable products and seasonal items at select, fixed price points up to US\$3.00 (or the equivalent in local currency) in stores located in El Salvador, Guatemala and Colombia. Dollarama International also sells merchandise and renders services to Dollarcity. For the 13-week and 26-week periods ended August 2, 2020 and August 4, 2019, sales by Dollarama International to Dollarcity represented approximately 1% of the Corporation’s total consolidated sales.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

2 Basis of preparation

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation for issue on September 2, 2020.

The Corporation prepares its condensed interim consolidated financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting under Part I, which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended February 2, 2020 ("Fiscal 2020"), which have been prepared in accordance with IFRS as issued by the IASB. In management's opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented.

Seasonality of operations

The Corporation's sales generally increase ahead of major holidays, with December representing the highest proportion of sales, but otherwise experience limited seasonal fluctuations. However, the occurrence of certain events that are beyond the Corporation's control, such as unusually adverse weather or an epidemic or pandemic outbreak (like the COVID-19 pandemic), and cause disruption in its operations could materially adversely affect the business and financial results of the Corporation. Consequently, results for the 13-week and 26-week periods ended August 2, 2020 may not be representative of results for subsequent quarters or for the full fiscal year.

3 Summary of significant accounting policies

Except as described below, these unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as outlined in Note 3 to the Fiscal 2020 audited consolidated financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Effective February 3, 2020, the Corporation adopted the "Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7" (the "Reform"). The amendments were meant to provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty arising from the Reform which affects the application of hedge accounting requirements of IFRS 9. There is no impact as a result of the adoption of these amendments since the hedges the Corporation contracted are not subject to an interest rate benchmark that is scheduled for replacement.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

3 Summary of significant accounting policies (cont'd)

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, the IASB issued an amendment to IFRS 16, Leases, which provides lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change if the change were not a lease modification. The amendment is effective for annual and interim reporting periods beginning on or after June 1, 2020 with early application permitted. The Corporation has adopted the "COVID-19-Related Rent Concessions" amendment to IFRS 16. Early application by the Corporation of the practical expedient did not have an impact on the financial results.

4 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.

These unaudited condensed interim consolidated financial statements have been prepared using the critical accounting estimates and judgments as outlined in Note 4 to the Fiscal 2020 audited consolidated financial statements.

5 Equity-accounted investment

On August 14, 2019, the Corporation acquired, through Dollarama International, a 50.1% interest in Latin American value retailer Dollarcity and made an upfront cash payment of US\$40,000 (\$52,800). The final purchase price will be calculated using 50.1% of a five times multiple of Dollarcity's EBITDA for the 12-month period ended June 30, 2020, minus net debt and subject to other adjustments.

As at August 2, 2020, based on the preliminary unaudited financial statements of Dollarcity for the 12-month period ended June 30, 2020, the estimated purchase price was US\$92,700 (\$123,481). The estimated balance of the purchase price of US\$52,700 (\$70,681) was recorded in accounts payable and accrued liabilities, and will be due, subject to final adjustments based on audited financial statements for the same 12-month period ended June 30, 2020, in the third quarter of the Corporation's fiscal year ending January 31, 2021.

On May 8, 2020, the Corporation, through Dollarama International, and Dollarcity's founding stockholders, each made a capital contribution to Dollarcity to cover their pro rata share of the costs associated with a series of transactions aimed at bringing real estate assets into the Dollarcity group, eliminating existing related-party transactions and insourcing some logistics activities. The Corporation's capital contribution amounted to US\$20,040 (\$28,002) and was added to the equity-accounted investment of the Corporation in Dollarcity.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

6 Leases

As at August 2, 2020, the Corporation owned one store, one distribution centre, one warehouse and leased 1,313 stores, its head office, five warehouses and some equipment.

a) Additions to right-of-use assets

Additions to the right-of-use assets during the 13-week and 26-week periods ended August 2, 2020 amounted to \$70,633 and \$110,335, respectively (13-week and 26-week periods ended August 4, 2019 – \$52,579 and \$117,827, respectively).

b) Amounts recognized in the interim consolidated statement of net earnings

	13-week periods ended		26-week periods ended	
	August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
	\$	\$	\$	\$
Depreciation of right-of-use assets	43,803	40,906	86,949	80,865
Gain on lease remeasurements	(1,739)	(17)	(2,824)	(763)
Interest on lease liabilities	11,847	11,747	23,760	23,511
Variable lease expenses not included in the measurement of lease liabilities	23,007	22,128	47,699	44,525
Expenses relating to short-term leases	4,510	3,303	8,685	7,121

c) Amounts recognized in the interim consolidated statement of cash flows

	13-week periods ended		26-week periods ended	
	August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
	\$	\$	\$	\$
Lease cash flows				
Fixed payments	38,071	52,846	110,908	103,080
Variable payments	13,446	22,264	45,188	45,074
Short-term leases	4,510	3,303	8,685	7,121
Tenant incentives received	(2,203)	(1,058)	(6,569)	(11,774)
	<u>53,824</u>	<u>77,355</u>	<u>158,212</u>	<u>143,501</u>
Principal elements of lease liabilities				
Fixed payments	38,071	52,846	110,908	103,080
Tenant incentives received	(2,203)	(1,058)	(6,569)	(11,774)
Interest on lease liabilities	<u>(11,847)</u>	<u>(11,747)</u>	<u>(23,760)</u>	<u>(23,511)</u>
	<u>24,021</u>	<u>40,041</u>	<u>80,579</u>	<u>67,795</u>

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

7 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 or hedges of U.S. dollar borrowings converted into Canadian dollar borrowings under the US Commercial Paper Program. Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as held for trading for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

7 Financial instruments (cont'd)

A summary of the aggregate contractual nominal value, weighted average contract rate, statement of financial position location and estimated fair values of derivative financial instruments as at August 2, 2020 and February 2, 2020 is as follows:

	Contractual nominal value	Weighted average contract rate	Statement of financial position	Fair value - Asset (Liability)	Nature of hedging relationship
	USD/CAD	USD/CAD	Location	Significant other observable inputs (Level 2)	Recurring
	\$			\$	
As at August 2, 2020					
Hedging instruments for the forecasted U.S. dollar merchandise purchases					
USD Foreign exchange forward contracts	197,500	1.32	Current assets	4,894	Cash flow hedge
USD Foreign exchange forward contracts	283,000	1.38	Current liabilities	(10,599)	Cash flow hedge
USD Foreign exchange forward contracts	26,000	1.37	Non-current liabilities	(787)	Cash flow hedge
	<u>506,500</u>			<u>(6,492)</u>	
Hedging instruments for the US commercial paper program					
USD Foreign exchange forward contracts	122,187	1.36	Current liabilities	(2,771)	Cash flow hedge
Total	<u>628,687</u>			<u>(9,263)</u>	
As at February 2, 2020					
Hedging instruments					
USD Foreign exchange forward contracts	410,000	1.31	Current assets	3,876	Cash flow hedge
USD Foreign exchange forward contracts	41,000	1.33	Current liabilities	(267)	Cash flow hedge
	<u>451,000</u>			<u>3,609</u>	

For the 26-week period ended August 2, 2020, accumulated fair value gains of \$9,483 on foreign exchange forward contracts recorded in the carrying value of inventory were reclassified from inventory to the consolidated statement of net earnings and comprehensive income and recorded in the cost of sales.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

8 Debt

	August 2, 2020 \$	February 2, 2020 \$
Long-term debt outstanding consists of the following as at:		
Senior unsecured notes bearing interest at:		
Fixed annual rate of 3.55% payable in equal semi-annual instalments, maturing November 6, 2023 (the "3.55% Fixed Rate Notes")	500,000	500,000
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", and collectively with the 3.55% Fixed Rate Notes and the 2.203% Fixed Rate Notes, the "Fixed Rate Notes")	525,000	525,000
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	300,000
Variable rate equal to 3-month bankers' acceptance rate (CDOR) plus 59 basis points payable quarterly, repaid on March 16, 2020 (the "Series 2 Floating Rate Notes", and collectively with the Series 3 Floating Rate Notes, the "Floating Rate Notes")	-	300,000
Less: Unamortized debt issue costs	(5,619)	(6,624)
Accrued interest on Floating Rate Notes and Fixed Rate Notes (collectively, the "Senior Unsecured Notes")	6,368	8,407
	<u>1,575,749</u>	<u>1,876,783</u>
Current portion (includes the Series 3 Floating Rate Notes maturing February 1, 2021, the 2.337% Fixed Rate Notes maturing July 22, 2021, unamortized debt issue costs and accrued interest on the Senior Unsecured Notes)	<u>(830,711)</u>	<u>(606,494)</u>
	<u>745,038</u>	<u>1,270,289</u>

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

8 Debt (cont'd)

The table below provides the carrying values and fair values of the Senior Unsecured Notes as at August 2, 2020 and February 2, 2020. The fair values of the Senior Unsecured Notes were determined using Level 2 inputs in the fair value hierarchy.

	August 2, 2020		February 2, 2020	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Fixed Rate Notes				
3.55% Fixed Rate Notes	501,295	537,850	500,874	523,480
2.203% Fixed Rate Notes	250,759	256,950	250,664	250,958
2.337% Fixed Rate Notes	524,905	533,400	524,686	527,678
Floating Rate Notes				
Series 3 Floating Rate Notes	300,307	299,970	301,302	300,204
Series 2 Floating Rate Notes	-	-	300,754	300,156
	<u>1,577,266</u>	<u>1,628,170</u>	<u>1,878,280</u>	<u>1,902,476</u>

Credit Agreement

On February 14, 2020, the Corporation and the lenders entered into the Third Amended and Restated Credit Agreement (the "TARCA") reflecting a number of agreed upon amendments to the Second Amended and Restated Credit Agreement (the "SARCA"), including the addition of a new revolving credit facility, Facility D, in the amount of \$300,000, which is available until February 12, 2021. This additional facility brings total commitments up from \$500,000 to \$800,000 and the whole facility serves as a liquidity backstop for the repayment of the USCP Notes (defined hereinafter) issued from time to time under the US Commercial Paper Program (defined hereinafter).

On March 13, 2020, the Corporation and the lenders entered into a first amending agreement to the TARCA in order to extend the term of Facility B and Facility C, representing \$200,000 and \$50,000 respectively, from September 29, 2021 to September 29, 2022. Facility A, in the amount of \$250,000 is available until September 27, 2024.

Under the TARCA, the Corporation may, under certain circumstances and subject to receipt of additional commitments from existing lenders or other eligible institutions, request increases to committed facilities up to an aggregate amount, together with all then-existing commitments, of \$1,500,000.

The TARCA requires the Corporation to respect a minimum interest coverage ratio and a maximum leverage ratio, each tested quarterly on a consolidated basis. The Corporation has the option to borrow in Canadian or U.S. dollars.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

August 2, 2020

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

8 Debt (cont'd)

As at August 2, 2020, no amount was outstanding under the TARCA (February 2, 2020 – no amount outstanding under the SARCA), although there were letters of credit issued for the purchase of inventories which amounted to \$988 (February 2, 2020 – \$469). As at August 2, 2020, the Corporation was in compliance with all of its financial covenants.

Short-term borrowings

On February 18, 2020, the Corporation announced the establishment of a commercial paper program in the United States on a private placement basis, in reliance upon exemptions from registration and prospectus requirements under applicable securities legislation (the “US Commercial Paper Program”).

Under the terms of the US Commercial Paper Program, the Corporation may issue, from time to time, unsecured commercial paper notes with maturities not in excess of 397 days from the date of issue (the “USCP Notes”). The aggregate principal amount of USCP Notes outstanding at any one time under the US Commercial Paper Program may not exceed US\$500,000. The Corporation uses derivative financial instruments to convert the net proceeds from the issuance of USCP Notes into Canadian dollars, and uses those proceeds for general corporate purposes.

The USCP Notes are direct unsecured obligations of the Corporation and rank equally with all of its other unsecured and unsubordinated indebtedness. The USCP Notes are unconditionally guaranteed by Dollarama L.P. and Dollarama GP Inc., each a wholly-owned subsidiary of the Corporation.

The USCP Notes had carrying values that approximated their fair values as at August 2, 2020 and their fair value was determined using Level 2 inputs. As at August 2, 2020, the amount outstanding under the US Commercial Paper Program was US\$122,187 (\$163,547).

9 Shareholders' equity (deficit)

a) Share capital

Normal course issuer bid

On July 3, 2020, the Corporation announced the renewal of its normal course issuer bid and the approval from the TSX to repurchase for cancellation up to 15,548,326 common shares, representing 5.0% of the common shares issued and outstanding as at the close of markets on June 30, 2020, during the 12-month period from July 7, 2020 to July 6, 2021.

During the 13-week and 26-week periods ended August 2, 2020, no common shares were repurchased for cancellation under the normal course issuer bid.

The total number of common shares repurchased for cancellation under the normal course issuer bid during the 13-week and 26-week periods ended August 4, 2019 amounted to 314,223 common shares, for a total cash consideration of \$15,505. For the 26-week period ended August 4, 2019, the Corporation's share capital was reduced by \$409 and the remaining \$15,096 was accounted for as an increase in deficit.

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9 Shareholders' equity (deficit) (cont'd)

b) Contributed surplus

Share-based compensation

During the 13-week and 26-week periods ended August 2, 2020, the Corporation recognized a share-based compensation expense of \$1,318 and \$2,498, respectively (13-week and 26-week periods ended August 4, 2019 – \$1,300 and \$2,715, respectively).

Outstanding and exercisable share options for the 26-week periods ended on the dates indicated below are as follows:

	August 2, 2020		August 4, 2019	
	Number of share options	Weighted average exercise price (\$)	Number of share options	Weighted average exercise price (\$)
Outstanding – beginning of period	5,083,700	26.99	7,249,600	22.07
Granted	748,000	46.80	565,500	38.17
Exercised	(894,200)	16.41	(430,100)	16.67
Forfeited	(20,100)	41.72	(88,800)	34.52
Outstanding – end of period	4,917,400	31.87	7,296,200	23.49
Exercisable – end of period	2,916,600	24.59	5,191,100	18.01

Information relating to share options outstanding and exercisable as at August 2, 2020 is as follows:

Range of exercise prices	Share options outstanding			Share options exercisable		
	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price (\$)	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price (\$)
\$4.39 - \$6.59	10	36,000	5.67	10	36,000	5.67
\$6.60 - \$9.90	18	51,600	7.37	18	51,600	7.37
\$9.91 - \$13.66	33	123,600	12.26	33	123,600	12.26
\$13.67 - \$18.72	44	1,028,800	14.83	44	1,028,800	14.83
\$18.73 - \$23.68	56	513,500	23.68	56	513,500	23.68
\$23.69 - \$30.20	68	804,000	30.20	68	579,000	30.20
\$30.21 - \$37.36	80	550,800	37.36	80	280,800	37.36
\$37.37 - \$51.25	106	1,809,100	45.51	96	303,300	46.91
	75	4,917,400	31.87	58	2,916,600	24.59

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9 Shareholders' equity (deficit) (cont'd)

The weighted average fair value of the share options granted during the 26-week periods ended on the dates indicated below was estimated at the grant date based on the Black-Scholes option pricing model using the following assumptions:

	August 2, 2020	August 4, 2019
Exercise price per share	\$46.80	\$38.17
Dividend yield	0.4%	0.5%
Risk-free interest rate	0.5%	1.4%
Expected life	6.2 years	6.2 years
Expected volatility	27.8%	22.4%
Weighted average fair value of share options estimated at the grant date	\$12.43	\$9.08

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

10 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. The statutory income tax rate for the 13-week and 26-week periods ended August 2, 2020 was 26.7% (August 4, 2019 – 26.9%). The Corporation's effective income tax rate for the 13-week and 26-week periods ended August 2, 2020 was 24.5% and 26.6%, respectively (August 4, 2019 – 27.3% and 27.4%, respectively).

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11 Earnings per common share

Diluted net earnings per common share for the 13-week and 26-week periods ended on the dates indicated below were calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares as follows:

	<u>13-week periods ended</u>		<u>26-week periods ended</u>	
	<u>August 2, 2020</u>	<u>August 4, 2019</u>	<u>August 2, 2020</u>	<u>August 4, 2019</u>
Net earnings attributable to shareholders of the Corporation and used to determine basic and diluted net earnings per common share	<u>\$142,496</u>	<u>\$143,183</u>	<u>\$228,575</u>	<u>\$246,695</u>
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	<u>310,748</u>	<u>314,757</u>	<u>310,515</u>	<u>314,729</u>
Assumed share options exercised (<i>thousands</i>)	<u>1,779</u>	<u>3,776</u>	<u>1,784</u>	<u>3,491</u>
Weighted average number of common shares for diluted net earnings per common share (<i>thousands</i>)	<u>312,527</u>	<u>318,533</u>	<u>312,299</u>	<u>318,220</u>
Diluted net earnings per common share	<u>\$0.46</u>	<u>\$0.45</u>	<u>\$0.73</u>	<u>\$0.78</u>

As at August 2, 2020, 1,277,200 share options have an anti-dilutive effect since the average market price of the underlying shares was lower than the sum of the exercise price and the unearned shared-based compensation of those share options under the treasury stock method (August 4, 2019 – 1,076,700).

12 Related party transactions

a) Rossy family

As at August 2, 2020, the outstanding balance of lease liabilities owed to entities controlled by the Rossy family totalled \$47,832 (February 2, 2020 – \$52,419).

Rental expenses charged by entities controlled by the Rossy family but not included in lease liabilities totalled \$1,534 and \$3,204 for the 13-week and 26-week periods ended August 2, 2020, respectively (13-week and 26-week periods ended August 4, 2019 – \$1,734 and \$3,835, respectively).

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

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

12 Related party transactions (cont'd)

b) Dollarcity

In 2013, Dollarama International, the Corporation's wholly-owned subsidiary, entered into a licensing and services agreement with Dollarcity (the "LSA"). As at August 2, 2020, the account receivable from Dollarcity for the goods sold, assets licensed, and services provided under the LSA totalled US\$14,627 (\$19,618), which amount is partly guaranteed by a letter of credit up to US\$10,000 (\$13,412). For the 13-week and 26-week periods ended August 2, 2020, the goods sold to Dollarcity that are shipped directly from the Corporation's warehouses amounted to US\$4,039 (\$5,522) and US\$7,476 (\$10,259), respectively.

Under the Stockholders Agreement dated August 14, 2019, Dollarcity's founding stockholders have a put right pursuant to which they can require, in certain circumstances, that Dollarama International purchase shares of Dollarcity held by them at fair market value. This right is exercisable in the ordinary course commencing on October 1, 2022, and is subject to certain transaction size thresholds, required ownership thresholds and freeze periods, among other conditions and restrictions. This right may also be exercised upon the occurrence of certain extraordinary events, including a change in control of the Corporation and a sale of Dollarcity.

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

	13-week periods ended		26-week periods ended	
	August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
	\$	\$	\$	\$
Cost of sales				
Cost of goods sold, labour, transport and other costs	533,774	501,438	993,004	948,294
Occupancy costs	35,068	31,724	71,585	64,013
Total cost of sales	<u>568,842</u>	<u>533,162</u>	<u>1,064,589</u>	<u>1,012,307</u>
Depreciation and amortization				
Depreciation of property, plant and equipment and right-of-use assets	61,794	55,894	121,653	110,535
Amortization of intangible assets	4,713	4,071	8,829	7,629
Total depreciation and amortization	<u>66,507</u>	<u>59,965</u>	<u>130,482</u>	<u>118,164</u>
Employee benefits	133,082	102,064	240,052	195,513

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14 Details of statement of cash flows

Changes in non-cash working capital

The changes in non-cash working capital components for the 13-week and 26-week periods ended on the dates indicated below are as follows:

	13-week periods ended		26-week periods ended	
	August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
	\$	\$	\$	\$
Accounts receivable	5,780	(4,951)	13,534	(3,497)
Prepaid expenses	9,045	452	531	(1,807)
Prepaid income taxes	2	6,324	1,761	(3,306)
Inventories	22,580	(24,243)	37,739	(20,482)
Accounts payable and accrued liabilities ⁽¹⁾	(1,838)	9,563	(4,797)	(32,472)
Income taxes payable	47,186	-	64,807	(34,602)
	<u>82,755</u>	<u>(12,855)</u>	<u>113,575</u>	<u>(96,166)</u>
Cash paid for income taxes	-	47,875	17,372	126,026
Cash paid for interest	30,045	33,635	49,940	49,948

⁽¹⁾ As at August 2, 2020, the estimated balance of purchase price for the acquisition of a 50.1% interest in Dollarcity of US\$52,700 (\$70,681) was recorded in accounts payable and accrued liabilities and was excluded from the change in non-cash working capital.

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

15 Event after the reporting period

Quarterly cash dividend

On September 2, 2020, the Corporation announced that its Board of Directors had approved a quarterly cash dividend for holders of common shares of \$0.044 per common share. This dividend is payable on November 6, 2020, to shareholders of record at the close of business on October 9, 2020. The dividend is designated as an "eligible dividend" for Canadian tax purposes.