Dollarama Inc.

Condensed Interim Consolidated Financial Statements

For the 13-week and 26-week periods ended August 1, 2021 and August 2, 2020

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

Dollarama Inc.

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

	Note	August 1, 2021 $	January 31, 2021 $
Assets			
Current assets			
Cash		131,480	439,144
Accounts receivable		22,239	20,546
Prepaid expenses		14,277	9,549
Prepaid income taxes		1,416	-
Inventories		586,302	630,655
Derivative financial instruments	10	3,118	468
		758,832	1,100,362
Non-current assets			
Right-of-use assets	6	1,384,362	1,344,639
Property, plant and equipment		732,733	709,469
Intangible assets		162,518	161,791
Derivative financial instruments	10	-	314
Goodwill		727,782	727,782
Equity-accounted investment	11	182,573	179,389
Total assets		3,948,800	4,223,746
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		221,581	253,072
Dividend payable		15,311	14,583
Derivative financial instruments	10	17,305	25,821
Income taxes payable		-	12,975
Current portion of long-term debt	7	8,021	832,821
Current portion of lease liabilities	6	212,073	181,893
		474,291	1,321,165
Non-current liabilities			
Non-current portion of long-term debt	7	1,790,877	1,044,079
Non-current portion of lease liabilities	6	1,416,338	1,401,769
Deferred income taxes		130,125	121,879
Derivative financial instruments	10	110	-
Total liabilities		3,811,741	3,888,892
Commitments			
Shareholders' equity			
Share capital	8	487,895	485,487
Contributed surplus	8	30,203	28,527
Deficit		(355,472)	(149,983)
Accumulated other comprehensive loss		(25,567)	(29,177)
Total shareholders' equity		137,059	334,854
Total liabilities and shareholders' equity		3,948,800	4,223,746

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

Dollarama Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity
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 – January 31, 2021	8	310,266,429	485,487	28,527	(149,983)	(29,177)	334,854
Net earnings		-	-	-	259,802	-	259,802
Other comprehensive loss		-	-	-	-	(17,186)	(17,186)
Total comprehensive income (loss)		-	-	-	259,802	(17,186)	242,616
Transfer of realized cash flow hedge losses to inventory		-	-	-	-	20,796	20,796
Dividends declared		-	-	-	(30,812)	-	(30,812)
Repurchase and cancellation of common shares	8	(7,819,954)	(12,457)	-	(434,479)	-	(446,936)
Share-based compensation	8	-	-	4,384	-	-	4,384
Issuance of common shares	8	434,300	12,157	-	-	-	12,157
Reclassification for the exercise of share options	8	-	2,708	(2,708)	-	-	-
Balance – August 1, 2021		302,880,775	487,895	30,203	(355,472)	(25,567)	137,059
Balance – February 2, 2020	8	310,231,037	448,704	29,108	(574,110)	4,102	(92,196)
Net earnings		-	-	-	228,575	-	228,575
Other comprehensive 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	8	-	-	2,498	-	-	2,498
Issuance of common shares	8	894,200	14,677	-	-	-	14,677
Reclassification for the exercise of share options	8	-	3,112	(3,112)	-	-	-
Balance – August 2, 2020		311,125,237	466,493	28,494	(372,877)	(7,506)	114,604

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

Dollarama Inc.

Interim Consolidated Statements 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 1, 2021	**August 2, 2020**	**August 1, 2021**	**August 2, 2020**
		$	**$**	**$**	**$**
Sales		1,029,348	1,013,592	1,983,594	1,858,390
Cost of sales	14	582,688	568,842	1,133,494	1,064,589
Gross profit		446,660	444,750	850,100	793,801
General, administrative and store operating expenses		157,093	169,337	315,765	307,075
Depreciation and amortization	14	73,185	66,507	144,587	130,482
Share of net earnings of equity-accounted investment		(4,100)	(2,503)	(7,503)	(4,877)
Operating income		220,482	211,409	397,251	361,121
Financing costs		22,856	22,604	45,002	49,806
Earnings before income taxes		197,626	188,805	352,249	311,315
Income taxes	9	51,398	46,309	92,447	82,740
Net earnings		146,228	142,496	259,802	228,575
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net earnings					
Realized gains on financial instruments not subject to basis adjustment		723	-	723	-
Reclassification of losses on derivative financial instruments not subject to basis adjustments		(91)	(94)	(169)	(189)
Foreign currency translation adjustments		2,715	(5,824)	(4,595)	(400)
Share of other comprehensive income (loss) of equity-accounted investment		382	210	(65)	(3,654)
Income tax recovery (expense) relating to these items		21	31	45	62
Items that will not be reclassified subsequently to net earnings					
Unrealized gain (loss) on derivative financial instruments subject to basis adjustments		9,492	(33,159)	(17,254)	4,169
Income tax recovery (expense) relating to these items		(2,948)	8,778	4,129	(1,102)
Total other comprehensive income (loss), net of income taxes		10,294	(30,058)	(17,186)	(1,114)
Total comprehensive income		156,522	112,438	242,616	227,461
Earnings per common share					
Basic net earnings per common share	12	$0.48	$0.46	$0.85	$0.74
Diluted net earnings per common share	12	$0.48	$0.46	$0.84	$0.73
Weighted average number of common shares outstanding (*thousands*)	12	304,779	310,748	307,090	310,515
Weighted average number of diluted common shares outstanding (*thousands*)	12	306,242	312,527	308,533	312,299

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

Dollarama Inc.

Interim Consolidated Statements 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 1, 2021	August 2, 2020	August 1, 2021	August 2, 2020
		$	$	$	$
Operating activities					
Net earnings		146,228	142,496	259,802	228,575
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	14	73,185	66,507	144,587	130,482
Amortization of debt issue costs		598	645	1,192	1,295
Recognition of net losses on bond lock and bond forward contracts	10	(91)	(94)	(169)	(189)
Share-based compensation	8	2,167	1,318	4,384	2,498
Financing costs on short-term borrowings and long-term debt		(6,831)	(7,248)	595	(686)
Deferred income taxes		4,255	-	5,379	(1,201)
Gain on lease remeasurements		(432)	(1,611)	(1,284)	(2,675)
Share of net earnings of equity-accounted investment		(4,100)	(2,503)	(7,503)	(4,877)
		214,979	199,510	406,983	353,222
Changes in non-cash working capital components	15	49,384	82,755	(8,339)	113,575
Net cash generated from operating activities		264,363	282,265	398,644	466,797
Investing activities					
Additions to equity-accounted investment	11	-	(28,002)	-	(28,002)
Additions to property, plant and equipment		(38,301)	(26,640)	(64,372)	(69,561)
Additions to intangible assets		(6,380)	(7,862)	(10,679)	(12,939)
Proceeds from disposal of property, plant and equipment		198	120	371	226
Net cash used in investing activities		(44,483)	(62,384)	(74,680)	(110,276)
Financing activities					
Proceeds from long-term debt issued (1.871% Fixed Rate Notes)	7	375,000	-	375,000	-
Proceeds from long-term debt issued (2.443% Fixed Rate Notes)	7	375,000	-	375,000	-
Net proceeds (repayments) of short-term borrowings	7	(139,255)	(218,231)	-	164,960
Repayments of credit facilities	7	-	(277,500)	-	-
Repayment of the Series 2 Floating Rate Notes and the Series 3 Floating Rate Notes	7	-	-	(300,000)	(300,000)
Repayment of 2.337% Fixed Rate Notes	7	(525,000)	-	(525,000)	-
Payment of debt issue costs		(3,996)	-	(4,174)	(290)
Principal elements of lease liabilities	6	(45,152)	(24,021)	(87,591)	(80,579)
Issuance of common shares		4,978	9,243	12,157	14,677
Dividends paid		(15,501)	(13,659)	(30,084)	(27,396)
Repurchase and cancellation of common shares	8	(163,574)	-	(446,936)	-
Net cash used in financing activities		(137,500)	(524,168)	(631,628)	(228,628)
Change in cash		82,380	(304,287)	(307,664)	127,893
Cash – beginning of period		49,100	522,644	439,144	90,464
Cash – end of period		131,480	218,357	131,480	218,357

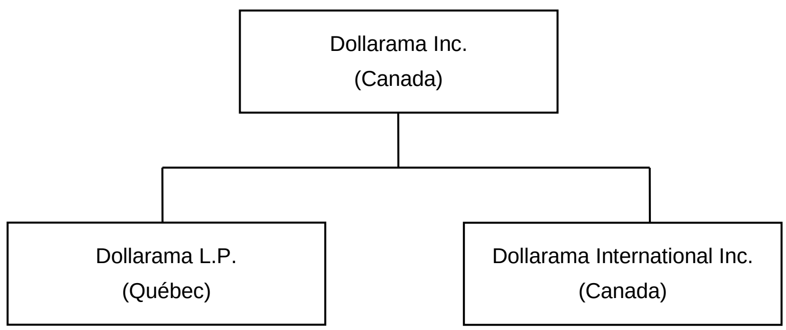
The accompanying notes are an integral part of these condensed interim consolidated financial statements.

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 1, 2021, 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 1, 2021, 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 and Guatemala and up to the equivalent of US$4.00 in local currency in stores located in Colombia and Peru. Dollarama International also sells merchandise and renders services to Dollarcity. For the 13-week and 26-week periods ended August 1, 2021 and August 2, 2020, sales by Dollarama International to Dollarcity represented approximately 1% of the Corporation’s total consolidated sales.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements were approved by the board of directors of the Corporation (the "Board of Directors") for issue on September 9, 2021.

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 January 31, 2021 ("Fiscal 2021"), 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 that 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 1, 2021 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 2021 audited consolidated financial statements.

Performance share units

On March 30, 2021, upon recommendation of the Human Resources and Compensation Committee, the Board of Directors approved the introduction of a new performance component to the Corporation's long-term incentive plan ("LTIP"), namely performance share units ("PSUs"), to be awarded annually concurrently with share options. Awards under the LTIP are now allocated so that at all times PSUs represent a minimum of 50% of the target dollar value of the LTIP award. PSUs will be settled shortly after the vesting determination date, following the expiry of the three-year performance period of each grant, in common shares of the Corporation purchased on the open market. Vesting will be based upon the achievement of performance objectives established at the time of the award by the Board of Directors.

The PSU grants are equity-settled transactions whereby the compensation expense is measured based on an estimated fair value at the grant date and recognized over the related performance period of three years with a corresponding increase in contributed surplus.

3 Summary of significant accounting policies (cont'd)

Fair value hedges

The Corporation uses derivatives in the management of its interest rate exposure.

The Corporation mainly uses interest rate swaps to hedge changes in the fair value of the issued fixed rate Senior Unsecured Notes. The changes in the fair value of the derivatives are recorded in net earnings as financing costs together with the changes in the fair value of the hedged items attributable to the hedged risk. Any fair value hedge ineffectiveness is recognized in net earnings immediately.

Hedge accounting is discontinued if a derivative instrument is sold, terminated or otherwise de-designated. If fair value hedge accounting is discontinued, the previously hedged item is no longer adjusted for changes in fair value through the Consolidated Statement of Net Earnings and Comprehensive Income and the cumulative net gain or loss on the hedged asset or liability at the time of de-designation is amortized to financing costs over the expected remaining life of the hedged item.

4 New accounting standards

New accounting standards announced and adopted

On March 31, 2021, the IASB extended by 12 months the availability of the practical expedient issued in May 2020 which relieves lessees from assessing whether a COVID-19 related rent concession is a lease modification. The 2021 amendments are effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted. Application of the practical expedient and its extension did not have an impact on the financial results of the Corporation.

5 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 5 to the Fiscal 2021 audited consolidated financial statements.

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

6 Leases

As at August 1, 2021, the Corporation owned one store, one distribution centre, one warehouse and leased 1,380 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 1, 2021 amounted to $66,281 and $137,669, respectively (13-week and 26-week periods ended August 2, 2020 – $70,633 and $110,335, respectively).

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

	13-week periods ended		26-week periods ended	
	August 1, 2021 $	August 2, 2020 $	August 1, 2021 $	August 2, 2020 $
Depreciation of right-of-use assets	47,383	43,803	93,919	86,949
Gain on lease remeasurements	(362)	(1,739)	(1,305)	(2,824)
Interest on lease liabilities	11,437	11,847	22,928	23,760
Variable lease expenses not included in the measurement of lease liabilities	24,162	23,007	47,790	47,699
Expenses relating to short-term leases	4,723	4,510	9,639	8,685

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

	13-week periods ended		26-week periods ended	
	August 1, 2021 $	August 2, 2020 $	August 1, 2021 $	August 2, 2020 $
Lease cash flows				
Fixed payments	59,027	38,071	117,387	110,908
Variable payments	23,836	13,446	46,488	45,188
Short-term leases	4,723	4,510	9,639	8,685
Tenant incentives received	(2,438)	(2,203)	(6,868)	(6,569)
	85,148	53,824	166,646	158,212
Principal elements of lease liabilities				
Fixed payments	59,027	38,071	117,387	110,908
Tenant incentives received	(2,438)	(2,203)	(6,868)	(6,569)
Interest on lease liabilities	(11,437)	(11,847)	(22,928)	(23,760)
	45,152	24,021	87,591	80,579

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

7 Debt

Long-term debt outstanding consists of the following as at:	**August 1, 2021 $**	**January 31, 2021 $**
Senior unsecured notes bearing interest at:		
Fixed annual rate of 2.443% payable in equal semi-annual instalments, maturing July 9, 2029 (the “2.443% Fixed Rate Notes”)	375,000	-
Fixed annual rate of 1.505% payable in equal semi-annual instalments, maturing September 20, 2027 (the “1.505% Fixed Rate Notes”)	300,000	300,000
Fixed annual rate of 1.871% payable in equal semi-annual instalments, maturing July 8, 2026 (the “1.871% Fixed Rate Notes”)	375,000	-
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, repaid on July 22, 2021 (the “2.337% Fixed Rate Notes”, and collectively with the 2.443% Fixed Rate Notes, the 1.505% Fixed Rate Notes, the 1.871% Fixed Rate Notes, the 3.55% Fixed Rate Notes and the 2.203% Fixed Rate Notes, the “Fixed Rate Notes”)	-	525,000
Variable rate equal to 3-month bankers’ acceptance rate (CDOR) plus 27 basis points payable quarterly, repaid on February 1, 2021 (the “Series 3 Floating Rate Notes”)	-	300,000
Less: Unamortized debt issue costs	(9,133)	(6,151)
Accrued interest on the Series 3 Floating Rate Notes and the Fixed Rate Notes (collectively, the “Senior Unsecured Notes”)	8,021	8,051
Fair value hedge – basis adjustment	10	-
	1,798,898	1,876,900
Current portion (includes unamortized debt issue costs, accrued interest on the Senior Unsecured Notes, and the Senior Unsecured Notes with a maturity date falling within the next 52-week period, when applicable)	(8,021)	(832,821)
	1,790,877	1,044,079

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

7 Debt (cont'd)

The table below provides the carrying values and fair values of the Senior Unsecured Notes as at August 1, 2021 and January 31, 2021. The fair values of the Senior Unsecured Notes were determined as a level 2 in the fair value hierarchy.

	August 1, 2021		January 31, 2021	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Fixed Rate Notes				
2.443% Fixed Rate Notes	373,743	383,588	-	-
1.505% Fixed Rate Notes	300,170	293,460	300,089	300,660
1.871% Fixed Rate Notes	373,799	379,125	-	-
3.55% Fixed Rate Notes	502,039	526,400	501,716	537,250
2.203% Fixed Rate Notes	250,953	254,150	250,856	257,000
2.337% Fixed Rate Notes	-	-	525,127	529,725
Floating Rate Notes				
Series 3 Floating Rate Notes	-	-	300,566	300,030
	1,800,704	1,836,723	1,878,354	1,924,665

Fixed Rate Notes

On July 8, 2021, the Corporation issued the 1.871% Fixed Rate Notes and the 2.443% Fixed Rate Notes by way of private placement, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 1.871% Fixed Rate Notes were issued at par for aggregate gross proceeds of $375,000 and bear interest at a fixed rate of 1.871% per annum, payable in semi-annual instalments, in arrears, on January 8 and July 8 of each year until maturity on July 8, 2026. The 2.443% Fixed Rate Notes were issued at par for aggregate gross proceeds of $375,000 and bear interest at a fixed rate of 2.443% per annum, payable in semi-annual instalments, in arrears, on January 9 and July 9 of each year until maturity on July 9, 2029. The 1.871% Fixed Rate Notes and the 2.443% Fixed Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS Limited.

Credit Agreement

On July 6, 2021, the Corporation and the lenders entered into a fourth amending agreement to the Third Amended and Restated Credit Agreement (the "TARCA") in order to, among other things, extend (i) the term of Facility A in the amount of $250,000 from September 27, 2024 to July 6, 2026, (ii) the term of Facility B, in the amount of $200,000, from September 29, 2023 to July 5, 2024, (iii) the term of Facility C, in the amount of $50,000, from September 29, 2023 to July 5, 2024, and (iv) the term of Facility D, in the amount of $300,000, from September 20, 2021 to July 6, 2022.

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.

7 Debt (cont'd)

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.

As at August 1, 2021 and January 31, 2021, no amount was outstanding under the TARCA. As at August 1, 2021, there were letters of credit issued for the purchase of inventories which amounted to $767 (January 31, 2021 – $1,105). As at August 1, 2021, the Corporation was in compliance with all of its financial covenants.

Short-term borrowings

Under the terms of its 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.

As at August 1, 2021 and January 31, 2021, no amount was outstanding under the Corporation's US commercial paper program.

8 Shareholders' equity

a) Share capital

Normal course issuer bid

On July 5, 2021, the Corporation announced the renewal of its normal course issuer bid and the approval from the TSX to repurchase for cancellation up to 19,376,824 common shares, representing 7.5% of the public float as at the close of markets on June 30, 2021, during the 12-month period from July 7, 2021 to July 6, 2022 (the "2021-2022 NCIB").

The total number of common shares repurchased for cancellation under the 2021-2022 NCIB and the normal course issuer bid previously in effect during the 13-week period ended August 1, 2021 amounted to 2,884,381 common shares, for a total cash consideration of $163,574. For the 13-week period ended August 1, 2021, the Corporation's share capital was reduced by $4,616 and the remaining $158,958 was accounted for as an increase in deficit.

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

8 Shareholders' equity (cont'd)

The total number of common shares repurchased for cancellation under the 2021-2022 NCIB and the normal course issuer bid previously in effect during the 26-week period ended August 1, 2021 amounted to 7,819,954 common shares, for a total cash consideration of $446,936. For the 26-week period ended August 1, 2021, the Corporation's share capital was reduced by $12,457 and the remaining $434,479 was accounted for as an increase in deficit.

No common shares were repurchased for cancellation under the normal course issuer bids in effect during the 13-week and 26-week periods ended August 2, 2020.

b) Contributed surplus

Share-based compensation

Performance share units

During the 13-week and 26-week periods ended August 1, 2021, the Corporation recognized a share-based compensation expense for PSUs of $487 and $652, respectively.

Outstanding PSUs for the 26-week period ended on the date indicated below are as follows:

	August 1, 2021
Outstanding – beginning of period	-
Granted [1]	103,953
Vested	-
Outstanding – end of period	103,953

[1] Vesting varies from 0% to 200% depending on performance against the criteria at the end of the three-year performance period. See Note 3.

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

8 Shareholders' equity (cont'd)

Share options

During the 13-week and 26-week periods ended August 1, 2021, the Corporation recognized a share-based compensation expense for share options of $1,680 and $3,732, respectively (13-week and 26-week periods ended August 2, 2020 – $1,318 and $2,498, respectively).

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

	August 1, 2021		August 2, 2020	
	Number of share options	Weighted average exercise price ($)	Number of share options	Weighted average exercise price ($)
Outstanding – beginning of period	4,229,500	33.81	5,083,700	26.99
Granted	396,000	56.50	748,000	46.80
Exercised	(434,300)	27.99	(894,200)	16.41
Forfeited	(58,350)	46.76	(20,100)	41.72
Outstanding – end of period	4,132,850	36.42	4,917,400	31.87
Exercisable – end of period	2,443,200	28.74	2,916,600	24.59

Information relating to share options outstanding and exercisable as at August 1, 2021 is as follows:

	Share options outstanding			Share options exercisable		
Range of exercise prices	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price ($)	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price ($)
$6.30 - $9.90	5	60,000	7.06	5	60,000	7.06
$9.91 - $13.66	20	59,600	12.02	20	59,600	12.02
$13.67 - $18.72	32	724,600	14.83	32	724,600	14.83
$18.73 - $23.68	44	237,500	23.68	44	237,500	23.68
$23.69 - $30.20	56	455,000	30.20	56	455,000	30.20
$30.21 - $37.36	68	469,800	37.36	68	338,400	37.36
$37.37 - $56.50	99	2,126,350	47.83	90	568,100	46.34
	73	4,132,850	36.42	55	2,443,200	28.74

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

8 Shareholders' equity (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 1, 2021	**August 2, 2020**
Exercise price per share	$56.50	$46.80
Dividend yield	0.4%	0.4%
Risk-free interest rate	1.1%	0.5%
Expected life	6.1 years	6.2 years
Expected volatility	26.8%	27.8%
Weighted average fair value of share options estimated at the grant date	$15.30	$12.43

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.

9 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 1, 2021 was 26.5% (August 2, 2020 – 26.7%). The Corporation's effective income tax rate for the 13-week and 26-week periods ended August 1, 2021 was 26.0% and 26.2%, respectively (August 2, 2020 – 24.5% and 26.6%, respectively).

10 Financial instruments

The Corporation uses derivative financial instruments in the management of its foreign currency and interest rate exposure. 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.

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, or non-current assets or liabilities if their maturity exceeds 12 months.

Foreign currency exposure

The Corporation uses foreign exchange forward contracts and zero cost collar 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.

Foreign exchange forward contracts and zero cost collar contracts are designated as hedging instruments and are recorded at fair value, determined using market prices and other observable inputs.

Interest rate exposure

The Corporation also uses interest rate swap contracts to mitigate the risk associated with changes in the fair value of the issued 3.55% Fixed Rates Notes maturing November 6, 2023 due to changes in interest rates. These derivative financial instruments are used for risk management purposes and are designated as fair value hedges. Under interest rates swaps, the Corporation receives a fixed rate of interest and pays interest at a variable rate on the notional amount. These derivatives are designated as hedging instruments and are recorded on the consolidated statement of financial position at fair value.

Also bond forward contracts were used in the first half of Fiscal 2022 in advance of issuing the 1.871% Fixed Rate Notes and the 2.443% Fixed Rate Notes as hedges of interest rates thereof. Upon the pricing of the 1.871% Fixed Rate Notes and the 2.443% Fixed Rate Notes on June 23, 2021, these bond forward contracts were settled and were no longer outstanding as of August 1, 2021. These derivatives are designated as hedging instruments and are recorded on the consolidated statement of financial position at fair value. The gain or loss related to 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.

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

10 Financial instruments (cont'd)

A summary of the aggregate contractual nominal value, weighted average contract rate or interest rate, as applicable, statement of financial position location and estimated fair values of derivative financial instruments as at August 1, 2021 and January 31, 2021 is as follows:

	Contractual nominal value	Weighted average contract rate/ Interest rate	Statement of financial position	Fair value - Asset (Liability)	Nature of hedging relationship
	USD/CAD	USD/CAD/ Interest rate	Location	Significant other observable inputs (Level 2)	Recurring
	$			$	
As at August 1, 2021					
Hedging instruments for the forecasted U.S. dollar merchandise purchases					
USD Foreign exchange forward contracts	100,000	1.25	Current assets	2,834	Cash flow hedge
USD Foreign exchange forward contracts	425,000	1.29	Current liabilities	(16,677)	Cash flow hedge
USD Foreign exchange forward contracts	10,000	1.26	Non-current liabilities	(110)	Cash flow hedge
USD Zero cost collar contracts	10,000	1.18 (1) – 1.28 (2)	Current assets	148	Cash flow hedge
USD Zero cost collar contracts	45,000	1.22 (1) – 1.32 (2)	Current liabilities	(502)	Cash flow hedge
	590,000			(14,307)	
Hedging instruments for the fixed to floating interest rate notes					
Interest rate swap contracts	81,000	CDOR (3) + 2.65%	Current assets	136	Fair value hedge
Interest rate swap contracts	119,000	CDOR (3) + 2.77%	Current liabilities	(126)	Fair value hedge
	200,000			10	
Total	790,000			(14,297)	
As at January 31, 2021					
Hedging instruments for the forecasted U.S. dollar merchandise purchases					
USD Foreign exchange forward contracts	30,000	1.26	Current assets	420	Cash flow hedge
USD Foreign exchange forward contracts	20,000	1.26	Non-current assets	314	Cash flow hedge
USD Foreign exchange forward contracts	535,000	1.33	Current liabilities	(25,784)	Cash flow hedge
USD Zero cost collar contracts	9,000	1.24 (1) – 1.32 (2)	Current liabilities	(37)	Cash flow hedge
USD Zero cost collar contracts	24,000	1.25 (1) – 1.30 (2)	Current assets	48	Cash flow hedge
	618,000			(25,039)	

(1) Lowest put strike
(2) Highest call strike
(3) 3-month CDOR

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

10 Financial instruments (cont'd)

For the 13-week and 26-week periods ended August 1, 2021, accumulated fair value losses of $13,602 and $22,947, respectively, (13-week and 26-week periods ended August 2, 2020 – accumulated fair value gains of $6,427 and $9,483, respectively) on USD foreign exchange forward contracts and USD zero cost collar contracts recorded in the carrying value of inventory were reclassified from inventory to the condensed interim consolidated statement of net earnings and comprehensive income and recorded in the cost of sales.

11 Equity-accounted investment

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.

12 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:

	13-week periods ended		**26-week periods ended**	
	August 1, 2021	**August 2, 2020**	**August 1, 2021**	**August 2, 2020**
Net earnings attributable to shareholders of the Corporation and used to determine basic and diluted net earnings per common share	$146,228	$142,496	$259,802	$228,575
Weighted average number of common shares outstanding during the period (*thousands*)	304,779	310,748	307,090	310,515
Assumed share options exercised (*thousands*)	1,463	1,779	1,443	1,784
Weighted average number of common shares for diluted net earnings per common share *(thousands)*	306,242	312,527	308,533	312,299
Diluted net earnings per common share	$0.48	$0.46	$0.84	$0.73

As at August 1, 2021, 458,250 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 2, 2020 – 1,277,200).

13 Related party transactions

a) Rossy family

As at August 1, 2021, the outstanding balance of lease liabilities owed to entities controlled by the Rossy family totalled $38,821 (January 31, 2021 – $44,110).

Rental expenses charged by entities controlled by the Rossy family but not included in lease liabilities totalled $1,523 and $3,285 for the 13-week and 26-week periods ended August 1, 2021, respectively (13-week and 26-week periods ended August 2, 2020 – $1,534 and $3,204, respectively).

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

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 1, 2021, the account receivable from Dollarcity for the goods sold, assets licensed, and services provided under the LSA totalled $17,030 (January 31, 2021 – $14,752), which amount is partly guaranteed by a letter of credit up to US$10,000 ($12,475) (January 31, 2021 – US$10,000 ($12,777)). For the 13-week and 26-week periods ended August 1, 2021, the goods sold to Dollarcity that are shipped directly from the Corporation's warehouses amounted to $9,320 and $17,513, respectively (13-week and 26-week periods ended August 2, 2020 – $5,522 and $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.

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

14 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 1, 2021	August 2, 2020	August 1, 2021	August 2, 2020
	$	$	$	$
Cost of sales				
Cost of goods sold, labour, transport and other costs	547,067	533,774	1,060,114	993,004
Occupancy costs	35,621	35,068	73,380	71,585
Total cost of sales	582,688	568,842	1,133,494	1,064,589
Depreciation and amortization				
Depreciation of property, plant and equipment and right-of-use assets (1)	68,154	61,794	134,635	121,653
Amortization of intangible assets	5,031	4,713	9,952	8,829
Total depreciation and amortization	73,185	66,507	144,587	130,482

(1) Includes depreciation expenses relating to the warehouses and distribution center totalling $3,012 and $5,974, respectively (August 2, 2020 – $2,908 and $5,707, respectively).

Employee benefits	122,699	133,082	247,593	240,052

15 Details of statement of cash flows

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 1, 2021	August 2, 2020	August 1, 2021	August 2, 2020
	$	$	$	$
Accounts receivable	(885)	5,780	(2,035)	13,534
Prepaid expenses	(3,123)	9,045	(4,728)	531
Prepaid income taxes	15,372	2	(1,418)	1,761
Inventories	43,074	22,580	44,353	37,739
Accounts payable and accrued liabilities (1)	(5,054)	(1,838)	(31,536)	(4,797)
Income taxes payable	-	47,186	(12,975)	64,807
	49,384	82,755	(8,339)	113,575
Cash paid for income taxes	32,140	-	101,609	17,372
Cash paid for interest	29,949	30,045	45,070	49,940

(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.

16 Event after the reporting period

Quarterly cash dividend

On September 9, 2021, the Corporation announced that its Board of Directors had approved a quarterly cash dividend for holders of common shares of $0.0503 per common share. This dividend is payable on November 5, 2021, to shareholders of record at the close of business on October 8, 2021. The dividend is designated as an “eligible dividend” for Canadian tax purposes.