



# **DOLLARAMA INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Second Quarter Ended August 3, 2014**

**September 11, 2014**

*The following management's discussion and analysis ("MD&A") dated September 11, 2014 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 August 3, 2014. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the second quarter ended August 3, 2014 and the annual audited consolidated financial statements and notes for Fiscal 2014 (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 August 3, 2014 have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook - Accounting under Part I, which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").*

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

#### **Accounting Periods**

All references to "Fiscal 2013" are to the Corporation's fiscal year ended February 3, 2013; to "Fiscal 2014" are to the Corporation's fiscal year ended February 2, 2014; and to "Fiscal 2015" are to the Corporation's fiscal year ending February 1, 2015.

The Corporation's fiscal year ends on the Sunday closest to January 31 of each year and usually has 52 weeks. However, as is traditional with the retail calendar, every five to six years, a week is added to the fiscal year. Fiscal 2013 was comprised of 53 weeks (the fourth quarter including a 14<sup>th</sup> week) whereas Fiscal 2014 and Fiscal 2015 are each comprised of 52 weeks.

#### **Forward-Looking Statements**

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

- the potential accretive effect of the normal course issuer bid;
- general increases in administrative and occupancy costs;
- the liquidity position of the Corporation;
- expectations on a sustainable gross margin; and
- expectations about our general, administrative and store operating expenses.

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 2014: future increases in operating and merchandise costs, inability to sustain assortment and replenishment of merchandise, increase in the cost or a disruption in the flow of imported goods, disruption of distribution infrastructure, inventory shrinkage, inability to renew store, warehouse, distribution center and head office leases on favourable terms, inability to increase warehouse and distribution center capacity in a timely manner, seasonality, failure to maintain brand image and reputation, 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, current economic conditions, failure to attract and retain quality employees, departure of senior executives, disruption in information technology systems, inability to protect systems against cyber attacks, unsuccessful execution of the growth strategy, holding company structure, adverse weather, natural disasters and geo-political events, unexpected costs associated with current insurance programs, litigation, product liability claims and product recalls, 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 11, 2014 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 2015, have been prepared in accordance with GAAP. However, this MD&A also refers to certain non-GAAP measures. The non-GAAP measures used by the Corporation are as follows:

<b>EBITDA</b>	Represents operating income plus depreciation and amortization.
<b>EBITDA margin</b>	Represents EBITDA divided by sales.
<b>Total debt</b>	Represents the sum of long-term debt (including accrued interest as current portion) and other bank indebtedness.
<b>Net debt</b>	Represents total debt minus cash and cash equivalents.

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. 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. Refer to the section entitled "Selected Quarterly 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.

Non-GAAP measures, including EBITDA and EBITDA margin, provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on GAAP measures. Management also uses total debt and net debt to calculate the Corporation's indebtedness level, cash position, future cash needs and financial leverage ratios. We believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers.

**Recent Event**

***2-For-1 Share Split by Way of Share Dividend***

On September 11, 2014, the board of directors of the Corporation (the "Board of Directors") announced that it had approved a share dividend of one common share for each issued and outstanding common share of the Corporation, which has the same effect as a two-for-one share split of the Corporation's outstanding common shares. The Corporation's share dividend on the common shares will be paid on November 17, 2014 to shareholders of record at the close of business on November 10, 2014 and is designated as an "eligible dividend" for Canadian tax purposes.

**Overview**

***Our Business***

We are the leading operator of dollar stores in Canada, with 917 Dollarama stores in operation as at August 3, 2014, which was close to five times the number of stores as our next largest dollar store competitor in Canada. We are the only dollar store operator with a significant national presence and are continuing to expand across Canada. Our stores average 9,928 square feet and offer a targeted mix of merchandise at compelling values, including private label and nationally branded products. We offer a broad range of quality consumer products and general merchandise for everyday use, in addition to seasonal products. Our quality merchandise is sold in individual or multiple units at select fixed price points up to \$3.00. All of our stores are corporate-owned and operated, providing a consistent shopping experience, and nearly all are located in high-traffic areas such as strip malls and shopping centers in various locations, including metropolitan areas, mid-sized cities and small towns.

Our strategy is to grow sales, net earnings and cash flows by building upon our position as the leading Canadian operator of dollar stores, and to offer a compelling value proposition on a wide variety of everyday merchandise to a broad base of customers. We continually strive to maintain and improve the efficiency of our operations.

***Key Items in the Second Quarter of Fiscal 2015***

Compared to the 13-week period ended August 4, 2013:

- Sales increased by 12.0% to \$572.6 million;
- Comparable store sales <sup>(1)</sup> grew 4.2%, over and above 6.2% the previous year;
- Gross margin was 36.1% of sales <sup>(1)</sup> compared to 36.6% of sales;
- EBITDA <sup>(1)</sup> grew 13.5% to \$108.6 million, or 19.0% of sales, compared to 18.7% of sales;
- Operating income grew 17.5% to \$99.2 million, or 17.3% of sales, compared to 16.5% of sales; and
- Diluted net earnings per common share increased by 25.6%, from \$0.82 to \$1.03.

During the second quarter of Fiscal 2015, we opened 18 net new stores compared to 22 net new stores for the corresponding period of Fiscal 2014.

During the second quarter of Fiscal 2015, the Corporation repurchased for cancellation a total of 1,394,040 common shares, at a weighted average price of \$91.04 per common share, for a total cash consideration of \$126.9 million.

Compared to the 26-week period ended August 4, 2013:

- Sales increased by 11.9% to \$1,073.7 million;
- Comparable store sales <sup>(1)</sup> grew 3.8%, over and above 5.0% the previous year;
- Gross margin was 35.8% of sales <sup>(1)</sup> compared to 36.3% of sales;
- EBITDA <sup>(1)</sup> grew 13.4% to \$194.8 million, or 18.1% of sales, compared to 17.9% of sales;
- Operating income grew 18.3% to \$176.7 million, or 16.5% of sales, compared to 15.6% of sales; and
- Diluted net earnings per common share increased by 25.0%, from \$1.44 to \$1.80.

During the 26-week period ended August 3, 2014, we opened 43 net new stores, the same number as in the corresponding period of the previous fiscal year.

During the 26-week period ended August 3, 2014, the Corporation repurchased for cancellation a total of 3,184,270 common shares, at a weighted average price of \$88.16 per common share, for a total cash consideration of \$280.7 million. Management anticipates that the repurchase of shares under the Corporation's normal course issuer bid, renewed in June 2014 for another 12-month period, will be accretive to shareholder value over time.

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

**Factors Affecting Our Results of Operations**

*Sales*

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

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

Historically, our highest sales results have occurred in the fourth quarter, during the winter holiday season, but we otherwise experience limited seasonal fluctuations in sales and expect this trend to continue. Refer to the section of our annual MD&A dated April 9, 2014 entitled "Risks and Uncertainties" for a complete discussion about the risks associated with seasonality.

*Cost of Sales*

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

Although cost increases can negatively affect our business, our multiple price point product offering provides some flexibility to react to cost increases on a timely basis. We have historically reduced our cost of sales by shifting more of our sourcing to low-cost foreign suppliers. During Fiscal 2014, direct overseas sourcing accounted for 51% of our purchases (52% in Fiscal 2013). While we still source a majority of our overseas products from China, we continue to purchase products from as many as 25 different countries around the world, with the vast majority of our non-China product-sourcing coming from North American suppliers.

Since the Corporation purchases goods in currencies other than the Canadian dollar, our cost of sales is affected by fluctuations of foreign currencies against the Canadian dollar. In particular, we purchase a majority of our imported merchandise from suppliers in China using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the Chinese renminbi against the U.S. dollar and the fluctuation of the U.S. dollar against the Canadian dollar. While we enter into foreign exchange forward contracts to hedge a significant portion of our exposure to fluctuations in the value of the U.S. dollar generally six to twelve months in advance, we do not hedge our exposure to fluctuations in the value of the Chinese renminbi against the U.S. dollar.

Shipping and transportation costs are also a significant component of our cost of sales. When fuel costs increase, shipping and transportation costs increase because the carriers generally pass on such cost increases to the users. Because of the high volatility of fuel costs, it is difficult to forecast the fuel surcharges we may incur from our contract carriers as compared to past years.

Our occupancy costs are mainly comprised of rental expense for our stores, which has generally increased in Canada over the years. While we continue to feel the upward pressure on lease rates in certain markets, where demand for prime locations is strong and/or vacancy rates are low, the Corporation believes that it is generally able to negotiate leases at competitive market rates. Typically, 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 within a range of 36% to 37% on a yearly basis, where we believe we can achieve a healthy balance between maximizing value for the shareholders and offering a compelling value to our customers.

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

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

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

We operate in the value retail industry, which is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. We compete with other dollar stores, variety and discount stores, convenience stores and mass merchants operating in Canada. The other retail companies operate stores in many of the areas where we operate and many of them 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, instability in the global economy, consumer debt levels and buying patterns, economic conditions, interest rates, currency exchange fluctuations, 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. Higher oil prices could have a dampening effect on consumer spending and result in higher transportation costs.

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

**September 11, 2014**

**Selected Quarterly Consolidated Financial Information**

The following tables set out selected financial information for the periods indicated. The selected quarterly consolidated financial information set out below as at August 3, 2014 and August 4, 2013 has been derived from our unaudited condensed interim consolidated financial statements and related notes.

<i>(dollars and shares in thousands, except per share amounts)</i>	<b>13-Week Periods Ended</b>		<b>26-Week Periods Ended</b>	
	<b>August 3, 2014</b>	<b>August 4, 2013</b>	<b>August 3, 2014</b>	<b>August 4, 2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Earnings Data</b>				
Sales	572,603	511,322	1,073,744	959,442
Cost of sales	366,037	324,036	689,683	611,482
Gross profit	206,566	187,286	384,061	347,960
SG&A	97,984	91,611	189,279	176,017
Depreciation and amortization	9,346	11,290	18,131	22,519
Operating income	99,236	84,385	176,651	149,424
Net financing costs	5,093	2,297	9,578	4,610
Earnings before income taxes	94,143	82,088	167,073	144,814
Provision for income taxes	25,247	22,319	44,953	39,400
Net earnings	68,896	59,769	122,120	105,414
Basic net earnings per common share	\$1.03	\$0.82	\$1.81	\$1.45
Diluted net earnings per common share	\$1.03	\$0.82	\$1.80	\$1.44
Weighted average number of common shares outstanding during the period:				
Basic	66,719	72,718	67,540	72,910
Diluted	66,984	72,903	67,795	73,097
<b>Other Data</b>				
Year-over-year sales growth	12.0%	16.0%	11.9%	14.4%
Comparable store sales growth <sup>(1)</sup>	4.2%	6.2%	3.8%	5.0%
Gross margin <sup>(2)</sup>	36.1%	36.6%	35.8%	36.3%
SG&A as a % of sales <sup>(2)</sup>	17.1%	17.9%	17.6%	18.3%
EBITDA <sup>(3)</sup>	108,582	95,675	194,782	171,943
Operating margin <sup>(2)</sup>	17.3%	16.5%	16.5%	15.6%
Capital expenditures	17,099	29,902	36,420	49,952
Number of stores <sup>(4)</sup>	917	828	917	828
Average store size (gross square feet) <sup>(4)</sup>	9,928	9,927	9,928	9,927
Declared dividends per common share	\$0.16	\$0.14	\$0.32	\$0.28

*(dollars in thousands)*

**Statement of Financial Position Data**

	<b>As at</b>	
	<b>August 3, 2014</b>	<b>February 2, 2014</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	27,985	71,470
Merchandise inventories	369,791	364,680
Property and equipment	266,362	250,612
Total assets	1,540,860	1,566,780
Total non-current liabilities	726,489	537,793
Total debt	588,673	403,017
Net debt	560,688	331,547

<i>(dollars in thousands)</i>	13-Week Periods Ended		26-Week Periods Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	\$	\$	\$	\$
<b>A reconciliation of operating income to EBITDA is included below:</b>				
Operating income	99,236	84,385	176,651	149,424
Add: Depreciation and amortization	9,346	11,290	18,131	22,519
<b>EBITDA</b>	<b>108,582</b>	<b>95,675</b>	<b>194,782</b>	<b>171,943</b>
<i>EBITDA margin</i> <sup>(3)</sup>	<i>19.0%</i>	<i>18.7%</i>	<i>18.1%</i>	<i>17.9%</i>

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

EBITDA	108,582	95,675	194,782	171,943
Net financing costs (net of amortization of debt issue costs)	(7,245)	(2,167)	(8,414)	(4,352)
Excess of receipts (disbursements) over amount recognized on derivative financial instruments	(4,745)	(1,292)	(4,190)	4,251
Current income taxes	(21,458)	(21,289)	(40,063)	(37,573)
Finance lease	-	177	-	-
Deferred lease inducements	725	930	1,588	1,958
Deferred tenant allowances	1,589	1,735	3,711	2,879
Recognition of deferred tenant allowances and deferred leasing costs	(1,094)	(749)	(1,915)	(1,488)
Share-based compensation	1,452	1,262	2,769	1,810
Loss (gain) on disposal of assets	615	(72)	543	(48)
	<u>78,421</u>	<u>74,210</u>	<u>148,811</u>	<u>139,380</u>
Change in non-cash working capital components before interest and taxes	54,196	46,078	33,459	28,342
Interest paid	(6,754)	(2,582)	(7,419)	(3,744)
Income taxes paid	(18,999)	(19,573)	(49,630)	(53,278)
<b>Net cash generated from operations</b>	<b>106,864</b>	<b>98,133</b>	<b>125,221</b>	<b>110,700</b>

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

<i>(dollars in thousands)</i>	August 3, 2014 \$	February 2, 2014 \$
Senior unsecured notes bearing interest at a variable rate equal to 3-month bankers' acceptance rate (CDOR) plus 54 basis point payable quarterly, maturing May 16, 2017	150,000	-
Senior unsecured notes bearing interest at a fixed annual rate of 3.095% payable in equal semi-annual instalments, maturing November 5, 2018	400,000	400,000
Unsecured revolving credit facility maturing December 14, 2018	35,000	-
Accrued interest as current portion of long-term debt	3,673	3,017
<b>Total debt</b>	<b>588,673</b>	<b>403,017</b>

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

Total debt	588,673	403,017
Cash and cash equivalents	(27,985)	(71,470)
<b>Net debt</b>	<b>560,688</b>	<b>331,547</b>

- (1) Comparable store sales growth is a measure of the percentage increase or decrease, as applicable, of the sales of stores, including relocated and expanded stores, open for at least 13 complete fiscal months relative to the same period in the prior fiscal year.
- (2) Gross margin represents gross profit divided by sales. SG&A as a % of sales represents SG&A divided by sales. Operating margin represents operating income divided by sales.
- (3) EBITDA, a non-GAAP measure, represents operating income plus depreciation and amortization. EBITDA margin represents EBITDA divided by sales.
- (4) At the end of the period.



**Results of Operations**

*Analysis of Results for the 13-Week Period Ended August 3, 2014*

The following section provides an overview of our financial performance during the 13-week period ended August 3, 2014 compared to the 13-week period ended August 4, 2013.

*Sales*

Sales for the 13-week period ended August 3, 2014 increased by 12.0% to \$572.6 million, compared to \$511.3 million in the corresponding period of the prior fiscal year. The increase in sales was driven by the growth in the number of stores over the past twelve months, from 828 stores on August 4, 2013 to 917 stores on August 3, 2014, and continued organic sales growth driven by comparable store sales growth of 4.2%, over and above comparable store sales growth of 6.2% in the second quarter of Fiscal 2014.

Comparable store sales growth for the 13-week period ended August 3, 2014 consisted of a 3.1% increase in the average transaction size and a 1.1% increase in the number of transactions.

In this quarter, 67.0% of our sales originated from products priced higher than \$1.00 compared to 61.7% in the corresponding quarter last year. Debit card penetration also increased, as 42.7% of sales were paid with debit cards compared to 40.6% in the corresponding period of the previous fiscal year.

*Gross Margin*

The gross margin was 36.1% of sales in the 13-week period ended August 3, 2014, compared to 36.6% of sales in the 13-week period ended August 4, 2013. This decrease is mainly attributable to slightly lower product margins, as the Corporation absorbs some of the product cost increases in order to continue to provide merchandise at compelling value to its customers. Overall, gross margin remains in line with management's expectations as the Corporation continues to strive to maintain a compelling product offering for its customers. We continually reinvest in the value proposition offered to our customers and we are targeting a margin in the range of 36% to 37% for Fiscal 2015 in order to stimulate continued sales growth.

*SG&A*

SG&A for the 13-week period ended August 3, 2014 was \$98.0 million, a 7.0% increase over \$91.6 million for the 13-week period ended August 4, 2013. This increase is primarily related to the continued growth in the total number of stores.

SG&A for the 13-week period ended August 3, 2014 represented 17.1% of sales, an improvement of 0.8% compared to 17.9% of sales for the 13-week period ended August 4, 2013. The reduction in SG&A as a percentage of sales is mainly the result of store labour productivity improvements implemented over the past year. However, as previously disclosed, the Province of Ontario implemented a 7.3% minimum wage increase, effective June 1, 2014, which partially offset productivity gains in the 13-week period ended August 3, 2014. Management expects the SG&A margin for Fiscal 2015 to be in the range of 17.1% and 17.5% as a percentage of sales.

*Depreciation and Amortization*

The depreciation and amortization expense decreased by \$2.0 million, from \$11.3 million for the 13-week period ended August 4, 2013 to \$9.3 million for the 13-week period ended August 3, 2014, as a result of a change in the estimated useful life of leasehold improvements and store and warehouse equipment.

*Net Financing Costs*

Net financing costs increased by \$2.8 million, from \$2.3 million for the 13-week period ended August 4, 2013 to \$5.1 million for the 13-week period ended August 3, 2014, mainly as a result of increased borrowings on long-term debt.

*Provision for Income Taxes*

Income taxes increased as a result of higher net earnings by \$2.9 million, from \$22.3 million for the 13-week period ended August 4, 2013 to \$25.2 million for the 13-week period ended August 3, 2014. 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 periods ended August 3, 2014 and August 4, 2013 was 26.7%. The Corporation's effective tax rates for the 13-week periods ended August 3, 2014 and August 4, 2013 were 26.8% and 27.2%, respectively.

*Net Earnings*

Net earnings increased to \$68.9 million, or \$1.03 per diluted common share, in the 13-week period ended August 3, 2014, compared to \$59.8 million, or \$0.82 per diluted common share, in the 13-week period ended August 4, 2013. The increase in net earnings is mainly a result of a 12.0% increase in sales, lower SG&A as a percentage of sales and a lower depreciation expense as a result of a change in the estimated useful life of leasehold improvements and store and warehouse equipment.

***Analysis of Results for the 26-Week Period Ended August 3, 2014***

The following section provides an overview of our financial performance during the 26-week period ended August 3, 2014 compared to the 26-week period ended August 4, 2013.

*Sales*

Sales for the 26-week period ended August 3, 2014 increased by 11.9% to \$1,073.7 million, compared to \$959.4 million in the corresponding period of the prior fiscal year. The increase in sales was driven by the growth in the number of stores over the past twelve months, from 828 stores on August 4, 2013 to 917 stores on August 3, 2014, and continued organic sales growth driven by comparable store sales growth of 3.8 %, over and above comparable store sales growth of 5.0% in the 26-week period ended August 4, 2013. Sales in the first quarter of Fiscal 2015 were adversely impacted by unfavourable weather across Canada.

Comparable store sales growth for the 26-week period ended August 3, 2014 consisted of a 3.4% increase in the average transaction size and a 0.4% increase in the number of transactions.

In the 26-week period ended August 3, 2014, 64.8% of our sales originated from products priced higher than \$1.00 compared to 59.8% in the corresponding period last year.

*Gross Margin*

The gross margin was 35.8% of sales in the 26-week period ended August 3, 2014, compared to 36.3% of sales in the 26-week period ended August 4, 2013. This decrease is mainly attributable to slightly lower product margins, as the Corporation absorbs some of the product cost increases in order to continue to provide merchandise at compelling value to its customers.

*SG&A*

SG&A for the 26-week period ended August 3, 2014 was \$189.3 million, a 7.5% increase over \$176.0 million for the 26-week period ended August 4, 2013. This increase is primarily related to the continued growth in the total number of stores.

SG&A for the 26-week period ended August 3, 2014 represented 17.6% of sales, an improvement of 0.7% compared to 18.3% of sales for the 26-week period ended August 4, 2013. The reduction in SG&A as a percentage of sales is mainly the result of store labour productivity improvements implemented over the past year. Management expects the SG&A margin for Fiscal 2015 to be in the range of 17.1% and 17.5% as a percentage of sales.

*Depreciation and Amortization*

The depreciation and amortization expense decreased by \$4.4 million, from \$22.5 million for the 26-week period ended August 4, 2013 to \$18.1 million for the 26-week period ended August 3, 2014, as a result of a change in the estimated useful life of leasehold improvements and store and warehouse equipment.

*Net Financing Costs*

Net financing costs increased by \$5.0 million, from \$4.6 million for the 26-week period ended August 4, 2013 to \$9.6 million for the 26-week period ended August 3, 2014 mainly as a result of increased borrowings on long-term debt.

*Provision for Income Taxes*

Income taxes increased as a result of higher net earnings by \$5.6 million, from \$39.4 million for the 26-week period ended August 4, 2013 to \$45.0 million for the 26-week period ended August 3, 2014. 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 26-week periods ended August 3, 2014 and August 4, 2013 was 26.7%. The Corporation's effective tax rates for the 26-week periods ended August 3, 2014 and August 4, 2013 were 26.9% and 27.2%, respectively.

*Net Earnings*

Net earnings increased to \$122.1 million, or \$1.80 per diluted common share, in the 26-week period ended August 3, 2014, compared to \$105.4 million, or \$1.44 per diluted common share, in the 26-week period ended August 4, 2013. This increase in net earnings is mainly a result of an 11.9% increase in sales, lower SG&A as a percentage of sales and a lower depreciation expense as a result of a change in the estimated useful life of leasehold improvements and store and warehouse equipment.

**Summary of Consolidated Quarterly Results**

<i>(dollars in thousands)</i>	<b>Fiscal 2015</b>		<b>Fiscal 2014</b>				<b>Fiscal 2013</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4<sup>(1)</sup></b>	<b>Q3</b>
<b>Statements of Earnings Data</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	572,603	501,141	582,285	522,949	511,322	448,120	561,879	457,993
Cost of sales	366,037	323,646	358,896	328,714	324,036	287,446	344,535	287,428
Gross profit	206,566	177,495	223,389	194,235	187,286	160,674	217,344	170,565
SG&A	97,984	91,295	92,706	94,459	91,611	84,406	98,233	87,021
Depreciation and amortization	9,346	8,785	13,108	12,271	11,290	11,229	10,806	9,961
Operating income	99,236	77,415	117,575	87,505	84,385	65,039	108,305	73,583
Net financing costs	5,093	4,485	3,989	3,074	2,297	2,313	2,694	2,794
Earnings before income taxes	94,143	72,930	113,586	84,431	82,088	62,726	105,611	70,789
Provision for income taxes	25,247	19,706	30,601	22,736	22,319	17,081	28,481	19,308
Net earnings	68,896	53,224	82,985	61,695	59,769	45,645	77,130	51,481
<b>Net earnings per common share</b>								
Basic	\$1.03	\$0.78	\$1.18	\$0.87	\$0.82	\$0.62	\$1.05	\$0.70
Diluted	\$1.03	\$0.78	\$1.17	\$0.87	\$0.82	\$0.62	\$1.04	\$0.68

(1) The fourth quarter of Fiscal 2013 included a 14<sup>th</sup> week, associated with the 53-week retail calendar, whereas all other quarters were comprised of 13 weeks.

Historically, our lowest sales results have occurred during the first quarter whereas our highest sales results have occurred during the fourth quarter, more specifically during the winter holiday season, with December representing a higher 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 13-Week Period Ended August 3, 2014

<i>(dollars in thousands)</i>	<b>13-week periods ended</b>		
	<b>August 3, 2014</b>	<b>August 4, 2013</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	106,864	98,133	8,731
Cash flows used by investing activities	(17,089)	(29,774)	12,685
Cash flows used by financing activities	(99,180)	(21,145)	(78,035)
Net change in cash and cash equivalents	(9,405)	47,214	(56,619)

#### Cash Flows from Operating Activities

For the 13-week period ended August 3, 2014, cash flows generated from operating activities totalled \$106.9 million, compared to \$98.1 million for the 13-week period ended August 4, 2013. This increase is attributable to higher net earnings.

#### Cash Flows used by Investing Activities

For the 13-week period ended August 3, 2014, cash flows used by investing activities totalled \$17.1 million, compared to \$29.8 million for the 13-week period ended August 4, 2013. The decrease of \$12.7 million mainly relates to the fact that certain information technology projects, including the roll-out of point of sale terminals, were completed in Fiscal 2014.

#### Cash Flows used by Financing Activities

For the 13-week period ended August 3, 2014, cash flows used by financing activities totalled \$99.2 million, compared to \$21.1 million for the 13-week period ended August 4, 2013. The additional amount of \$78.0 million in cash used by financing activities is mainly attributable to the repurchase of common shares under the 2013-2014 NCIB and the 2014-2015 NCIB (both defined hereinafter), partially offset by an increase in borrowings on long-term debt.

#### Cash Flows for the 26-Week Period Ended August 3, 2014

<i>(dollars in thousands)</i>	<b>26-week periods ended</b>		
	<b>August 3, 2014</b>	<b>August 4, 2013</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	125,221	110,700	14,521
Cash flows used by investing activities	(36,276)	(49,756)	13,480
Cash flows used by financing activities	(132,430)	(26,321)	(106,109)
Net change in cash and cash equivalents	(43,485)	34,623	(78,108)

#### Cash Flows from Operating Activities

For the 26-week period ended August 3, 2014, cash flows from operating activities totalled \$125.2 million, compared to \$110.7 million for the 26-week period ended August 4, 2013. This increase is attributable to higher net earnings.

*Cash Flows from Investing Activities*

For the 26-week period ended August 3, 2014, cash flows used by investing activities totaled \$36.3 million, compared to \$49.8 million for the 26-week period ended August 4, 2013. The decrease of \$13.5 million mainly relates to the fact that certain information technology projects, including the roll-out of point of sale terminals, were completed in Fiscal 2014.

*Cash Flows from Financing Activities*

For the 26-week period ended August 3, 2014, cash flows used by financing activities totalled \$132.4 million, compared to \$26.3 million for the 26-week period ended August 4, 2013. The additional amount of \$106.1 million in cash used by financing activities is mainly attributable to the repurchase of common shares under the 2013-2014 NCIB and the 2014-2015 NCIB (both defined hereinafter), partially offset by an increase in borrowings on long-term debt.

*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 August 3, 2014, the Corporation had \$28.0 million of cash and cash equivalents on hand and \$214.1 million available under the Credit Facility. These available funds provide further funding flexibility to meet any unanticipated cash requirements.

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

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

*Credit Facility*

On October 25, 2013, the Corporation entered into a second amended and restated credit agreement (the "SAR Credit Agreement") relating to its \$350.0 million revolving credit facility (the "Credit Facility") in order to, among other things, release all security that had been granted in connection with the Credit Facility, include an option to request annual extensions and extend the maturity date by one year to December 14, 2018. The Corporation has the option to borrow in Canadian or U.S. dollars.

Effective May 16, 2014, the Corporation cancelled \$100.0 million of the \$350.0 million aggregate amount available under the Credit Facility, which portion was not drawn by the Corporation on that date, in order to reduce standby fees payable on the unutilized portion.

Under the SAR Credit Agreement, 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 \$700.0 million.

Until December 3, 2013, interest was charged at bankers' acceptance rate or prime rate (or, in case of U.S. dollar loans, at LIBOR or base rate), plus a margin ranging from 0% to 2.00% per annum determined according to certain financial ratios calculated on a consolidated basis. On December 3, 2013, the Corporation and the lenders entered into an amending agreement pursuant to which the applicable margin, ranging from 0% to 2.50% per annum, is now calculated based on the senior unsecured credit or debt rating issued to the Corporation by a rating agency. In the event that the Corporation is assigned unsecured credit or debt ratings by two or more rating agencies, then the margin shall be based on the highest senior unsecured credit or debt rating, provided that if the senior unsecured credit or debt ratings are two or more levels apart, the rating that is one level above the lower of the ratings shall be the applicable rating. If the Corporation fails to have a rating, there will not be an event of default but rather the highest margin shall apply until a rating is obtained.

The SAR Credit Agreement requires the Corporation to respect a minimum interest coverage ratio and a maximum lease-adjusted leverage ratio, each tested quarterly on a consolidated basis.

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

As at August 3, 2014, \$35.0 million were outstanding under the Credit Facility (February 2, 2014 - nil). Letters of credit issued for the purchase of inventories amounted to \$0.9 million (February 2, 2014 - \$0.7 million). As at August 3, 2014, the Corporation was in compliance with all of its financial covenants.

#### *Senior Unsecured Notes*

On November 5, 2013, the Corporation issued senior unsecured notes due May 5, 2018 (the "Fixed Rate Notes"), in the aggregate principal amount of \$400.0 million, on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Corporation used the net proceeds of this offering to repay indebtedness outstanding under its Credit Facility and other bank indebtedness outstanding at the time and for general corporate purposes. The Fixed Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS Limited. The Fixed Rate Notes bear interest at a rate of 3.095% per annum and is payable in equal semi-annual installments, in arrears, on May 5 and November 5 of each year until maturity. The first interest payment was made on May 5, 2014. As at August 3, 2014, the carrying value of the Fixed Rate Notes was \$402.3 million.

On May 16, 2014, the Corporation issued floating rate senior unsecured notes due May 16, 2017 (the "Floating Rate Notes"), in the aggregate principal amount of \$150.0 million, on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Corporation used the net proceeds of this offering to repay indebtedness outstanding under its Credit Facility and for general corporate purposes. The Floating Rate Notes were assigned a rating of BBB, with a stable trend, by DBRS Limited. The Floating Rate Notes bear interest at a rate equal to the 3-month bankers' acceptance rate (CDOR) plus 54 basis points (or 0.54%), to be set quarterly on the 16<sup>th</sup> day of May, August, November and February of each year. Interest is payable in cash quarterly, in arrears, over the three-year term on the 16<sup>th</sup> day of May, August, November and February of each year. The first payment was made on August 16, 2014. As at August 3, 2014, the carrying value of the Floating Rate Notes was \$150.1 million.

The 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.

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

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

The table below analyses the Corporation's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as at August 3, 2014.

<i>(dollars in thousands)</i>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2-5 years \$</b>	<b>Over 5 years \$</b>	<b>Total \$</b>
Accounts payable and accrued liabilities	105,540	-	-	-	105,540
Dividend payable	10,613	-	-	-	10,613
Obligations under finance lease	256	766	1,362	-	2,384
Principal repayment on Floating Rate Notes	-	-	150,000	-	150,000
Interest payments on Fixed Rate Notes	6,190	6,190	43,330	-	55,710
Credit facility	-	-	35,000	-	35,000
Assumed interest on credit facility and Floating Rate Notes <sup>(1)</sup>	1,018	2,419	10,019	-	13,456
Principal repayment on Fixed Rate Notes	-	-	400,000	-	400,000
	<u>123,617</u>	<u>9,375</u>	<u>639,711</u>	<u>-</u>	<u>772,703</u>

<sup>(1)</sup> Based on interest rates in effect as at August 3, 2014.

The following table summarizes the Corporation's off-balance sheet arrangements and commitments as at August 3, 2014.

<i>(dollars in thousands)</i>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2-5 years \$</b>	<b>Over 5 years \$</b>	<b>Total \$</b>
Obligations under operating leases <sup>(2)</sup>	32,358	97,075	426,244	306,439	862,116
Letters of credit	930	-	-	-	930
	<u>33,288</u>	<u>97,075</u>	<u>426,244</u>	<u>306,439</u>	<u>863,046</u>

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

Other than our operating leases obligations and letters of credit described above, we have no off-balance sheet arrangements.

***Financial Instruments***

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

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

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

In the second quarter of Fiscal 2015, there was no material change to the nature of risks arising from foreign exchange forward contracts and related risk management.

For a complete description of the derivative financial instruments of the Corporation, please refer to Note 6 to the Corporation's unaudited condensed interim consolidated financial statements for the second quarter of Fiscal 2015 and to Note 15 to the Corporation's annual audited consolidated financial statements for Fiscal 2014.

## **Related Party Transactions**

### *Property Leases*

We currently lease 19 stores, 5 warehouses, a distribution center and our head office from entities controlled by the Chairman of the Board of Directors and Chief Executive Officer, Larry Rossy, or certain of his immediate family members, pursuant to long-term lease agreements. Rental expenses associated with these related-party leases are established at market terms and represented an aggregate amount of approximately \$4.8 million and \$10.1 million for the 13-week and 26-week periods ended August 3, 2014, respectively, compared to \$4.7 million and \$9.9 million for the 13-week and 26-week periods ended August 4, 2013, respectively.

## **Critical Accounting Estimates and Judgments**

The preparation of condensed interim consolidated financial statements requires management to make estimates and assumptions using judgment that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense 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.

In preparing these condensed interim consolidated financial statements, the significant estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for Fiscal 2014 (refer to note 6 of the Fiscal 2014 consolidated financial statements), with the exception of a change in the estimated useful life of store and warehouse equipment and leasehold improvements.

### *Property and equipment*

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate.

#### *Leasehold improvements*

Prior to February 3, 2014, substantially all of the Corporation's leasehold improvements were being depreciated on a straight-line basis over the term of the lease, which was on average a 10-year period from the date of inception of the lease. As a result of a review of its leasehold improvements, effective February 3, 2014, the Corporation increased the estimated useful life of substantially all of its leasehold improvements. The change was driven by new information about the economic life of these assets, including the increasing number of leases extending into the first renewal option. Leasehold improvements that were not already fully depreciated are now being depreciated on a straight-line basis over a period of approximately 15 years from the date of inception of the lease. Management now believes the first renewal option on leases is reasonably assured of being exercised.

#### *Store and warehouse equipment*

The Corporation also extended the range of the estimated useful life of substantially all of its store and warehouse equipment, which, prior to February 3, 2014, were being depreciated on a straight-line basis over a range of eight to ten years. The change was driven by new information about the economic life of these assets. Store and warehouse equipment that were not already fully depreciated are now being depreciated on a straight-line basis over their estimated useful lives, which now range from ten to fifteen years.

The effect of these changes to the estimated useful life of leasehold improvements and store and warehouse equipment was a decrease of approximately \$4.0 million and \$8.0 million in depreciation expense for the 13-week and 26-week periods ended August 3, 2014, respectively.



### **Significant Standards and Interpretations Adopted**

The Corporation did not adopt any significant accounting standards or interpretations during the second quarter of Fiscal 2015. Refer to the corresponding section in our most recent annual MD&A available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Significant New Accounting Standards**

The following standards and amendments to existing standards were released by the IASB in May 2014 and July 2014. The Corporation is evaluating whether to early adopt these standards but does not expect any significant changes upon adoption.

- 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 new standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted.
- In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” concerning classification and measurement, impairment and hedge accounting, to supersede IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 will be effective for years beginning on or after January 1, 2018 with early adoption permitted.

### **Risks and Uncertainties**

Monitoring and improving its operations are constant concerns at 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 2014 (which are available on SEDAR at [www.sedar.com](http://www.sedar.com)), and are divided into the following categories:

- risks related to our 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 managing 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 considers these findings when making strategic and operational decisions. Despite these guidelines and initiatives, the Corporation cannot provide assurances that any such efforts will be successful.

### **Controls and Procedures**

There were no changes in our internal control over financial reporting that occurred during the period beginning on May 5, 2014 and ended on August 3, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

**Dividend**

***Quarterly Cash Dividend***

On September 11, 2014, the Board of Directors announced that it had approved a quarterly cash dividend for holders of its common shares of \$0.16 per common share. The Corporation's quarterly cash dividend will be paid on November 4, 2014 to shareholders of record at the close of business on October 2, 2014 and is designated as an "eligible dividend" for Canadian tax purposes.

***2-For-1 Share Split by Way of Share Dividend***

On September 11, 2014, the Board of Directors also announced that it had approved a share dividend of one common share for each issued and outstanding common share of the Corporation, which has the same effect as a two-for-one share split of the Corporation's outstanding common shares. The Corporation's share dividend on the common shares will be paid on November 17, 2014 to shareholders of record at the close of business on November 10, 2014 and is designated as an "eligible dividend" for Canadian tax purposes.

The Toronto Stock Exchange ("TSX") has determined to implement due bill trading in connection with the share dividend. A due bill is an entitlement attached to listed securities undergoing a material corporate action, such as a share split. In this instance, anyone purchasing a common share of the Corporation during the period commencing on November 6, 2014, being two trading days before the record date, and ending on November 17, 2014, being the payment date, inclusively, shall receive a right to receive the share dividend, provided that person still holds the common shares on the payment date. Any trades that are executed on the TSX during that period will be flagged to ensure purchasers receive the entitlement to the share dividend. The common shares will commence trading on an ex-dividend basis (on a split basis) on November 18, 2014. The due bill redemption date will be November 20, 2014.

For Canadian income tax purposes, the aggregate amount of the share dividend is nominal. Accordingly, there will be no Canadian income tax payable by the shareholders with respect to the share dividend. For more information, shareholders and beneficial owners should consult their own tax advisor. Also, the share dividend will not dilute shareholders' equity. All share and per share data for future periods will reflect the share dividend. In addition, the Corporation's equity-based compensation plan as well as the Corporation's current common share repurchase program will be adjusted to reflect the share split.

**Normal Course Issuer Bid**

***2013-2014 NCIB***

On June 12, 2013, the Corporation introduced a normal course issuer bid (the "2013-2014 NCIB") to repurchase for cancellation up to 3,364,523 common shares (representing 5% of the Corporation's public float as at May 31, 2013) during the 12-month period from June 17, 2013 to June 16, 2014. On January 22, 2014, the Corporation received approval from the TSX to amend the 2013-2014 NCIB in order to increase the maximum number of common shares that may be repurchased thereunder from 3,364,523 common shares to up to 6,729,046 common shares (representing 10% of the public float as at May 31, 2013). The other terms of the 2013-2014 NCIB remained unchanged.

Since the inception of the 2013-2014 NCIB in June 2013 and through the second quarter of Fiscal 2015, a total of 6,664,688 common shares have been repurchased for cancellation under the 2013-2014 NCIB, at a weighted average price of \$82.96 per common share, for a total cash consideration of \$552.9 million.

***2014-2015 NCIB***

On June 12, 2014, the Corporation renewed its normal course issuer bid (the "2014-2015 NCIB") to repurchase for cancellation up to 2,341,929 common shares (representing 3.5% of the common shares issued and outstanding as at June 11, 2014) during the 12-month period from June 17, 2014 to June 16, 2015.

Concurrently with the 2014-2015 NCIB, the Corporation entered into an automatic purchase plan agreement that allows for the purchase of its common shares under the 2014-2015 NCIB at times when the Corporation ordinarily would not be active in the market due to self-imposed trading blackout periods. Outside of these pre-determined blackout periods, common shares are purchased based on management's discretion, in compliance with TSX rules and applicable securities laws.

During the 13-week period ended August 3, 2014, a total of 1,394,040 common shares were repurchased for cancellation under both the 2013-2014 NCIB and the 2014-2015 NCIB, at a weighted average price of \$91.04 per common share, for a total cash consideration of \$126.9 million. Of this number, 1,154,040 common shares were repurchased for cancellation under the 2013-2014 NCIB, at a weighted average price of \$91.72 per common share, for a total cash consideration of \$105.9 million and 240,000 common shares were repurchased for cancellation under the 2014-2015 NCIB, at a weighted average price of \$87.76 per common share, for a total cash consideration of \$21.1 million. In total, the Corporation's share capital was reduced by \$9.9 million and the remaining \$117.0 million was accounted for as a reduction of retained earnings.

During the 26-week period ended August 3, 2014, a total of 3,184,270 common shares were repurchased for cancellation under both the 2013-2014 NCIB and the 2014-2015 NCIB, at a weighted average price of \$88.16 per common share, for a total cash consideration of \$280.7 million. The Corporation's share capital was reduced by \$22.6 million and the remaining \$258.1 million was accounted for as a reduction of retained earnings.

**Share Information**

The Corporation's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and, as at September 10, 2014, there were 66,334,696 common shares issued and outstanding. In addition, there were 1,165,424 options, each exercisable for one common share, issued and outstanding as at September 10, 2014. Assuming exercise of all outstanding options, there would have been 67,500,120 common shares issued and outstanding on a fully diluted basis as at September 10, 2014.

**Additional Information**

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