



## **DOLLARAMA INC. MANAGEMENT'S DISCUSSION AND ANALYSIS Second Quarter Ended July 30, 2017**

**September 7, 2017**

*The following management's discussion and analysis ("MD&A") dated September 7, 2017 is intended to assist readers in understanding the business environment, strategies, performance and risk factors of Dollarama Inc. (together with its consolidated subsidiaries, referred to as "Dollarama", the "Corporation", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Corporation's financial results for the second quarter ended July 30, 2017. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the second quarter ended July 30, 2017 and the audited annual consolidated financial statements and notes for Fiscal 2017 (as hereinafter defined).*

*Unless otherwise indicated and as hereinafter provided, all financial information in this MD&A as well as the Corporation's unaudited condensed interim consolidated financial statements for the second quarter ended July 30, 2017 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 2016" are to the Corporation's fiscal year ended January 31, 2016; to "Fiscal 2017" are to the Corporation's fiscal year ended January 29, 2017; and to "Fiscal 2018" are to the Corporation's fiscal year ending January 28, 2018.

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

**Forward-Looking Statements**

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

- expectations on net new store openings and general capital expenditures;
- expectations on a sustainable gross margin;
- the liquidity position of the Corporation; and
- the potential accretive effect of the normal course issuer bid.

Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us regarding, among other things, general economic conditions and the competitive environment within the retail industry in Canada, in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, but not limited to, the following factors, which are discussed in greater detail in the “Risks and Uncertainties” section of the Corporation’s most recent annual MD&A and annual information form for Fiscal 2017, both available on SEDAR at [www.sedar.com](http://www.sedar.com): future increases in operating and merchandise costs (including increases in statutory minimum wage), inability to sustain assortment and replenishment of merchandise, increase in the cost or a disruption in the flow of imported goods, failure to maintain brand image and reputation, disruption of distribution infrastructure, inventory shrinkage, inability to renew store, warehouse, distribution center and head office leases on favourable terms, inability to increase warehouse and distribution center capacity in a timely manner, seasonality, market acceptance of private brands, failure to protect trademarks and other proprietary rights, foreign exchange rate fluctuations, potential losses associated with using derivative financial instruments, level of indebtedness and inability to generate sufficient cash to service debt, changes in creditworthiness and credit rating and the potential increase in the cost of capital, interest rate risk associated with variable rate indebtedness, competition in the retail industry, general economic conditions, departure of senior executives, failure to attract and retain quality employees, disruption in information technology systems, inability to protect systems against cyber-attacks, unsuccessful execution of the growth strategy, holding company structure, adverse weather, natural disasters and geopolitical events, unexpected costs associated with current insurance programs, product liability claims and product recalls, litigation and regulatory and environmental compliance.

These factors are not intended to represent a complete list of the factors that could affect us; however, they should be considered carefully. The purpose of the forward-looking statements is to provide the reader with a description of management’s expectations regarding the Corporation’s financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as at September 7, 2017 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 2018, have been prepared in accordance with GAAP. However, this MD&A also refers to certain non-GAAP measures. The non-GAAP measures used by the Corporation are as follows:

<b>EBITDA</b>	Represents operating income plus depreciation and amortization.
<b>EBITDA margin</b>	Represents EBITDA divided by sales.
<b>Total debt</b>	Represents the sum of long-term debt (including accrued interest as current portion) and other bank indebtedness (if any).
<b>Net debt</b>	Represents total debt minus cash and cash equivalents.
<b>Adjusted retained earnings</b>	Represents deficit plus the excess of (i) the price paid for all common shares repurchased under the Corporation's normal course issuer bids from inception in June 2012 through July 30, 2017 over (ii) the book value of those common shares.

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

**Recent Event*****Credit Card Rollout***

Since May 1, 2017, all stores accept payment by credit card. This payment method provides customers with additional convenience.

## **Overview**

### ***Our Business***

As at July 30, 2017, we operated 1,125 stores in Canada, and we continue to expand our network across the country. Our stores average 10,076 square feet and offer a broad assortment of everyday consumer products, general merchandise and seasonal items, including private label and nationally branded products, at compelling values. Merchandise is sold in individual or multiple units at select fixed price points up to \$4.00. All of our stores are corporate-owned and operated, providing a consistent shopping experience, and nearly all are located in high-traffic areas such as strip malls and shopping centers in various locations, including metropolitan areas, mid-sized cities and small towns.

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

### ***Key Items in the Second Quarter of Fiscal 2018***

Compared to the second quarter of Fiscal 2017:

- Sales increased by 11.5% to \$812.5 million;
- Comparable store sales<sup>(1)</sup> grew 6.1%, over and above a 5.7% growth the previous year;
- Gross margin<sup>(1)</sup> was 39.6% of sales, compared to 38.4% of sales;
- EBITDA<sup>(1)</sup> grew 24.1% to \$209.2 million, or 25.7% of sales, compared to 23.1% of sales;
- Operating income grew 24.1% to \$191.9 million, or 23.6% of sales, compared to 21.2% of sales; and
- Diluted net earnings per common share increased by 30.7%, from \$0.88 to \$1.15.

During the second quarter of Fiscal 2018, the Corporation opened 17 net new stores, compared to 13 net new stores during the corresponding period of the previous fiscal year.

### ***Key Items in the First Six Months of Fiscal 2018***

Compared to the first six months of Fiscal 2017:

- Sales increased by 10.8% to \$1,517.4 million;
- Comparable store sales<sup>(1)</sup> grew 5.4%, over and above 6.1% the previous year;
- Gross margin<sup>(1)</sup> was 38.7% of sales, compared to 37.7% of sales;
- EBITDA<sup>(1)</sup> grew 20.7% to \$365.1 million, or 24.1% of sales, compared to 22.1% of sales;
- Operating income grew 20.4% to \$331.2 million, or 21.8% of sales, compared to 20.1% of sales; and
- Diluted net earnings per common share increased by 27.1%, from \$1.55 to \$1.97.

During the first six months of Fiscal 2018, the Corporation opened 30 net new stores compared to 21 net new stores during the corresponding period of the previous fiscal year. The Corporation still plans to open 60 to 70 net new stores by fiscal year end.

## **Outlook**

A discussion of management's expectations as to the Corporation's outlook for Fiscal 2018 is contained in the Corporation's press release dated September 7, 2017 under the heading "Outlook". The press release is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.dollarama.com](http://www.dollarama.com).

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

## **Factors Affecting Results of Operations**

### ***Sales***

The Corporation recognizes revenue from the sale of products or the rendering of services when they are earned.

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

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

Our sales consist of comparable store sales and new store sales as well as sales to third parties. Comparable store sales represent sales of Dollarama stores, including relocated and expanded stores, open for at least 13 complete fiscal months relative to the same period in the prior fiscal year. Sales to third parties represent mainly sales of merchandise to Dollarcity, a Central American value retailer operating stores in El Salvador, Guatemala and Colombia. The Corporation, through Dollarama International Inc., shares its business expertise and acts as Dollarcity's main supplier of merchandise, either as principal or as intermediary, pursuant to an agreement entered into in February 2013.

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

Historically, our highest sales results have occurred in the fourth quarter, with December representing the highest proportion of sales. Our sales also generally increase ahead of other holidays and celebrations, such as Easter, St. Patrick's Day, Valentine's Day and Halloween, but we otherwise experience limited seasonal fluctuations in sales and expect this trend to continue. Refer to the section of the annual MD&A dated March 30, 2017 entitled "Risks and Uncertainties" for a discussion about the risks associated with seasonality.

### ***Cost of Sales***

Our cost of sales consists mainly of merchandise inventory, store occupancy costs and transportation costs (which are variable and proportional to our sales volume) and warehouse and distribution center operating costs. We record vendor rebates consisting of volume purchase rebates when earned. The rebates are recorded as a reduction of inventory purchased 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 most of our sourcing to low-cost foreign suppliers. For the first six months of Fiscal 2018, direct overseas sourcing accounted for 54% of our purchases (51% for the corresponding period of Fiscal 2017). While we still source a majority of our overseas products from China, we purchase products from over 28 different countries around the world.

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

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

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

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

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

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

Our general, administrative and store operating expenses ("SG&A") consist of store labour, which is primarily variable and proportional to our sales volume, as well as general store maintenance costs, salaries and related benefits of corporate and field management team members, administrative office expenses, professional fees, and other related expenses, all of which are primarily fixed. Although our average store hourly wage rate is higher than the statutory minimum wage, a significant increase in the statutory minimum wage would significantly increase our payroll costs unless we realize offsetting productivity improvements and other store cost reductions.

On June 1, 2017, the Ontario government introduced Bill 148, *Fair Workplaces, Better Jobs Act, 2017*, which, if passed, is anticipated to come into effect in 2018. The bill proposes a number of changes to the *Employment Standards Act*, including among other things, raising the minimum wage to \$14 per hour starting January 1, 2018 and then to \$15 per hour starting January 1, 2019. We expect our administrative and store operating costs to increase as a result of the proposed minimum wage increases in the province where we operate approximately 41% of our stores, and management is currently evaluating solutions to mitigate this impact.

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

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

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

**Selected Consolidated Financial Information**

The following tables set out selected financial information for the periods indicated. The selected consolidated financial information set out below as at July 30, 2017 and July 31, 2016 has been derived from our unaudited condensed interim consolidated financial statements and related notes.

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

	<b>13-Week Periods Ended</b>		<b>26-Week Periods Ended</b>	
	<b>July 30, 2017</b>	<b>July 31, 2016</b>	<b>July 30, 2017</b>	<b>July 31, 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Earnings Data</b>				
Sales	812,487	728,968	1,517,432	1,369,980
Cost of sales	490,490	449,391	930,113	853,540
Gross profit	321,997	279,577	587,319	516,440
SG&A	112,783	110,942	222,257	213,888
Depreciation and amortization	17,301	14,006	33,846	27,533
Operating income	191,913	154,629	331,216	275,019
Financing costs	10,225	7,289	19,467	13,923
Earnings before income taxes	181,688	147,340	311,749	261,096
Income taxes	49,888	40,988	85,259	71,592
Net earnings	131,800	106,352	226,490	189,504
Basic net earnings per common share	\$1.16	\$0.89	\$1.99	\$1.57
Diluted net earnings per common share	\$1.15	\$0.88	\$1.97	\$1.55
Weighted average number of common shares outstanding during the period:				
Basic	113,347	119,431	113,859	120,706
Diluted	114,705	120,662	115,196	121,910
<b>Other Data</b>				
Year-over-year sales growth	11.5%	11.6%	10.8%	12.4%
Comparable store sales growth <sup>(1)</sup>	6.1%	5.7%	5.4%	6.1%
Gross margin <sup>(2)</sup>	39.6%	38.4%	38.7%	37.7%
SG&A as a % of sales <sup>(2)</sup>	13.9%	15.2%	14.6%	15.6%
EBITDA <sup>(3)</sup>	209,214	168,635	365,062	302,552
Operating margin <sup>(2)</sup>	23.6%	21.2%	21.8%	20.1%
Capital expenditures	29,367	36,904	49,077	86,056
Number of stores <sup>(4)</sup>	1,125	1,051	1,125	1,051
Average store size (gross square feet) <sup>(4)</sup>	10,076	9,968	10,076	9,968
Declared dividends per common share	\$0.11	\$0.10	\$0.22	\$0.20
<b>As at</b>				
	<b>July 30, 2017</b>	<b>Jan. 29, 2017</b>		
	<b>\$</b>	<b>\$</b>		
<b>Statement of Financial Position Data</b>				
Cash and cash equivalents		79,226	62,015	
Merchandise inventories		472,263	465,715	
Property, plant and equipment		450,815	437,089	
Total assets		1,891,416	1,863,451	
Total non-current liabilities		1,669,586	1,249,765	
Total debt <sup>(5)</sup>		1,479,635	1,333,643	
Net debt <sup>(6)</sup>		1,400,409	1,271,628	
Shareholders' equity (deficit)		(59,388)	100,284	

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

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<i>(dollars in thousands)</i>	<b>13-Week Periods Ended</b>		<b>26-Week Periods Ended</b>	
	<b>July 30, 2017</b>	<b>July 31, 2016</b>	<b>July 30, 2017</b>	<b>July 31, 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>A reconciliation of operating income to EBITDA is included below:</b>				
Operating income	191,913	154,629	331,216	275,019
Add: Depreciation and amortization	17,301	14,006	33,846	27,533
<b>EBITDA</b>	<b>209,214</b>	<b>168,635</b>	<b>365,062</b>	<b>302,552</b>
<i>EBITDA margin <sup>(3)</sup></i>	25.7%	23.1%	24.1%	22.1%

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

EBITDA	209,214	168,635	365,062	302,552
Financing costs (net of amortization of debt issue costs)	(14,771)	(9,956)	(16,969)	(13,170)
Recognition of realized gains on foreign exchange contracts	(2,618)	(14,562)	(2,051)	(36,345)
Cash settlement of gains on foreign exchange contracts	7,747	7,927	10,106	19,758
Current income taxes	(54,975)	(35,773)	(87,017)	(64,821)
Deferred lease inducements	1,211	1,392	2,481	2,628
Deferred tenant allowances	2,425	2,183	4,190	3,513
Recognition of deferred tenant allowances and deferred leasing costs	(1,134)	(1,092)	(2,252)	(2,133)
Share-based compensation	1,719	1,793	3,339	3,403
Loss on disposal of assets	44	193	55	184
Changes in non-cash working capital components	31,353	45,356	(12,569)	(11,049)
<b>Net cash generated from operating activities</b>	<b>180,215</b>	<b>166,096</b>	<b>264,375</b>	<b>204,520</b>

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

<i>(dollars in thousands)</i>	<b>As at</b>	
	<b>July 30, 2017</b>	<b>Jan. 29, 2017</b>
	<b>\$</b>	<b>\$</b>
Senior unsecured notes bearing interest at:		
Fixed annual rate of 2.203% payable in equal semi-annual instalments, maturing November 10, 2022 (the "2.203% Fixed Rate Notes")	250,000	-
Fixed annual rate of 2.337% payable in equal semi-annual instalments, maturing July 22, 2021 (the "2.337% Fixed Rate Notes")	525,000	525,000
Fixed annual rate of 3.095% payable in equal semi-annual instalments, maturing November 5, 2018 (the "3.095% Fixed Rate Notes", and collectively with the 2.203% Fixed Rate Notes and the 2.337% Fixed Rate Notes, the "Fixed Rate Notes")	400,000	400,000
Variable rate equal to 3-month bankers' acceptance rate plus 59 basis points payable quarterly, maturing March 16, 2020 (the "Series 2 Floating Rate Notes")	300,000	-
Variable rate equal to 3-month bankers' acceptance rate plus 54 basis points payable quarterly, matured May 16, 2017 (the "Series 1 Floating Rate Notes", and collectively with the Series 2 Floating Rate Notes, the "Floating Rate Notes")	-	274,834
Unsecured revolving credit facility maturing December 14, 2021	-	130,000
Accrued interest on senior unsecured notes	4,635	3,809
<b>Total debt</b>	<b>1,479,635</b>	<b>1,333,643</b>



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*(dollars in thousands)*

As at	
July 30, 2017	Jan. 29, 2017
\$	\$

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

Total debt	1,479,635	1,333,643
Cash and cash equivalents	(79,226)	(62,015)
<b>Net debt</b>	<b>1,400,409</b>	<b>1,271,628</b>

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

Deficit	(471,304)	(342,957)
Price paid in excess of book value of common shares repurchased under the NCIB	2,414,113	2,084,284
<b>Adjusted retained earnings <sup>(7)</sup></b>	<b>1,942,809</b>	<b>1,741,327</b>

The deficit as at July 30, 2017 is not a reflection of poor or deteriorating operating performance. It results from the fact that a significant portion of the cash consideration paid for the repurchase of shares under the Corporation's normal course issuer bid is accounted for as a reduction of retained earnings and that the market price at which shares are repurchased significantly exceeds the book value of those shares. As a result, the Corporation's shareholders' equity for accounting purposes was in a deficit position as at July 30, 2017, at \$59.4 million. Management believes that buying back shares remains an effective strategy to drive shareholder value and constitutes an appropriate use of the Corporation's funds.

- (1) Comparable store sales growth is a measure of the percentage increase or decrease, as applicable, of the sales of stores, including relocated and expanded stores, open for at least 13 complete fiscal months relative to the same period in the prior fiscal year.
- (2) Gross margin represents gross profit divided by sales. SG&A as a % of sales represents SG&A divided by sales. Operating margin represents operating income divided by sales.
- (3) EBITDA, a non-GAAP measure, represents operating income plus depreciation and amortization. EBITDA margin represents EBITDA divided by sales.
- (4) At the end of the period.
- (5) Total debt, a non-GAAP measure, represents the sum of long-term debt (including accrued interest as current portion) and other bank indebtedness (if any).
- (6) Net debt, a non-GAAP measure, represents total debt minus cash and cash equivalents.
- (7) Adjusted retained earnings represents deficit plus the excess of (i) the price paid for all common shares repurchased under the Corporation's normal course issuer bids from inception in June 2012 through July 30, 2017 over (ii) the book value of those common shares.

## **Results of Operations**

### ***Analysis of Results for the Second Quarter of Fiscal 2018***

The following section provides an overview of our financial performance during the second quarter of Fiscal 2018 compared to the second quarter of Fiscal 2017.

#### *Sales*

Sales for the second quarter of Fiscal 2018 increased by 11.5% to \$812.5 million, compared to \$729.0 million in the corresponding period of the prior fiscal year. The increase in sales was driven by continued organic sales growth fuelled by comparable store sales growth of 6.1%, over and above comparable store sales growth of 5.7% in the second quarter of Fiscal 2017, and the growth in the total number of stores over the past twelve months, from 1,051 stores on July 31, 2016 to 1,125 stores on July 30, 2017.

Comparable store sales growth for the second quarter of Fiscal 2018 consisted of a 5.9% increase in the average transaction size, over and above a 4.6% increase in the corresponding quarter of Fiscal 2017, and a 0.2% increase in the number of transactions.

New stores, which are not yet comparable stores, now reach annual sales of approximately \$2.2 million within their first two years of operation, and achieve an average capital payback period of approximately two years.

In this quarter, 68.1% of our sales originated from products priced higher than \$1.25, compared to 63.9% in the corresponding quarter last year.

#### *Gross Margin*

Gross margin was 39.6% of sales in the second quarter of Fiscal 2018, compared to 38.4% of sales in the second quarter of Fiscal 2017. The increase in the gross margin is mainly attributable to higher product margins, the positive scaling impact of strong comparable store sales as well as lower logistics and occupancy costs as a percentage of sales. Gross margin includes sales made by the Corporation to Dollarcity, as principal, which represent approximately 1% of the Corporation's total sales, and a nominal markup margin.

#### *SG&A*

SG&A for the second quarter of Fiscal 2018 was \$112.8 million, a 1.7% increase over \$110.9 million for the second quarter of Fiscal 2017. The increase is primarily related to the continued growth in the total number of stores.

SG&A for the second quarter of Fiscal 2018 represented 13.9% of sales, compared to 15.2% of sales for the second quarter of Fiscal 2017. The improvement of 1.3% in SG&A as a percentage of sales is mainly the result of labour productivity improvements and cost reduction initiatives at store level as well as the positive scaling impact of strong comparable store sales.

#### *Depreciation and Amortization*

The depreciation and amortization expense increased by \$3.3 million, from \$14.0 million for the second quarter of Fiscal 2017 to \$17.3 million for the second quarter of Fiscal 2018. This increase relates to investments in information technology projects, new stores and a new warehousing facility.

#### *Financing Costs*

Financing costs increased by \$2.9 million, from \$7.3 million for the second quarter of Fiscal 2017 to \$10.2 million for the second quarter of Fiscal 2018. The increase is due to increased borrowings on long-term debt.

*Income Taxes*

Income taxes increased by \$8.9 million, from \$41.0 million for the second quarter of Fiscal 2017 to \$49.9 million for the second quarter of Fiscal 2018, as a result of higher earnings. The statutory income tax rate for the second quarters of Fiscal 2018 and Fiscal 2017 was 26.9%. The Corporation's effective tax rates for the second quarters of Fiscal 2018 and Fiscal 2017 were 27.5% and 27.8%, respectively.

*Net Earnings*

Net earnings increased to \$131.8 million, or \$1.15 per diluted common share, in the second quarter of Fiscal 2018, compared to \$106.4 million, or \$0.88 per diluted common share, in the second quarter of Fiscal 2017. The increase in net earnings is mainly the result of a 11.5% increase in sales, a stronger gross margin and lower SG&A as a percentage of sales. Earnings per share were also positively impacted by the repurchase of shares through the Corporation's normal course issuer bid.

***Analysis of Results for the First Six Months of Fiscal 2018***

The following section provides an overview of our financial performance during the first six months of Fiscal 2018 compared to the first six months of Fiscal 2017.

*Sales*

Sales for the first six months of Fiscal 2018 increased by 10.8% to \$1,517.4 million, compared to \$1,370.0 million in the corresponding period of the prior fiscal year. The increase in sales was driven by continued organic sales growth fuelled by comparable store sales growth of 5.4%, over and above comparable store sales growth of 6.1% in the first six months of Fiscal 2017, and the growth in the total number of stores over the past twelve months, from 1,051 stores on July 31, 2016 to 1,125 stores on July 30, 2017.

Comparable store sales growth for the first six months of Fiscal 2018 included a 6.0% increase in the average transaction size, over and above a 4.2% increase in the first six month of Fiscal 2017. However, the number of transactions decreased by 0.6% year over year, mainly as a result of the comparative first six months of Fiscal 2017 having been very strong, with a 1.8% increase.

In the first six months of Fiscal 2018, 66.6% of our sales originated from products priced higher than \$1.25, compared to 62.3% in the corresponding period last year.

*Gross Margin*

The gross margin was 38.7% of sales in the first six months of Fiscal 2018, compared to 37.7% of sales in the first six months of Fiscal 2017. This increase is mainly attributable to higher product margins, the positive scaling impact of strong comparable store sales as well as lower logistics and occupancy costs as a percentage of sales. Gross margin includes sales made by the Corporation to Dollarcity, as principal, which represent approximately 1% of the Corporation's total sales, and a nominal markup margin.

Overall, gross margin remains in line with management's expectations, although slightly above the initial outlook range.

*SG&A*

SG&A for the first six months of Fiscal 2018 was \$222.3 million, a 3.9% increase over \$213.9 million for the first six months of Fiscal 2017. The increase is primarily related to the continued growth in the total number of stores.

SG&A for the first six months of Fiscal 2018 represented 14.6% of sales, compared to 15.6% of sales for the first six months of Fiscal 2017. The improvement of 1.0% in SG&A as a percentage of sales is mainly the result of labour productivity improvements and cost reduction initiatives at store level.

*Depreciation and Amortization*

The depreciation and amortization expense increased by \$6.3 million, from \$27.5 million for the first six months of Fiscal 2017 to \$33.8 million for the first six months of Fiscal 2018. The increase relates to investments in information technology projects, new stores and a new warehousing facility.

*Financing Costs*

Financing costs increased by \$5.6 million, from \$13.9 million for the first six months of Fiscal 2017 to \$19.5 million for the first six months of Fiscal 2018. The increase is due to increased borrowings on long-term debt.

*Income Taxes*

Income taxes increased by \$13.7 million, from \$71.6 million for the first six months of Fiscal 2017 to \$85.3 million for the first six months of Fiscal 2018, as a result of higher earnings. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. The statutory income tax rate for the first six months of Fiscal 2018 and Fiscal 2017 was 26.9%. The Corporation's effective tax rates for the first six months of Fiscal 2018 and Fiscal 2017 were 27.3% and 27.4%, respectively.

*Net Earnings*

Net earnings increased to \$226.5 million, or \$1.97 per diluted common share, in the first six months of Fiscal 2018, compared to \$189.5 million, or \$1.55 per diluted common share, in the first six months of Fiscal 2017. The increase in net earnings is mainly the result of a 10.8% increase in sales, a stronger gross margin and lower SG&A as a percentage of sales.

**Summary of Consolidated Quarterly Results**

	Fiscal 2018		Fiscal 2017				Fiscal 2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(dollars in thousands, except per share amounts)</i>								
<b>Statements of Net Earnings Data</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	812,487	704,945	854,531	738,708	728,968	641,012	766,476	664,491
Cost of sales	490,490	439,623	501,156	447,239	449,391	404,149	453,526	398,537
Gross profit	321,997	265,322	353,375	291,469	279,577	236,863	312,950	265,954
SG&A	112,783	109,474	127,166	116,972	110,942	102,946	123,075	111,148
Depreciation and amortization	17,301	16,545	15,549	14,666	14,006	13,527	12,945	12,214
Operating income	191,913	139,303	210,660	159,831	154,629	120,390	176,930	142,592
Financing costs	10,225	9,242	10,643	8,517	7,289	6,634	6,043	5,361
Earnings before income taxes	181,688	130,061	200,017	151,314	147,340	113,756	170,887	137,231
Income taxes	49,888	35,371	53,943	41,256	40,988	30,604	46,067	37,155
Net earnings	131,800	94,690	146,074	110,058	106,352	83,152	124,820	100,076
<b>Net earnings per common share</b>								
Basic	\$1.16	\$0.83	\$1.25	\$0.93	\$0.89	\$0.68	\$1.01	\$0.79
Diluted	\$1.15	\$0.82	\$1.24	\$0.92	\$0.88	\$0.68	\$1.00	\$0.78

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

**Liquidity and Capital Resources**

**Cash Flows for the Second Quarter of Fiscal 2018**

	13-Week Periods Ended		
	July 30, 2017	July 31, 2016	Change
<i>(dollars in thousands)</i>			
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	180,215	166,096	14,119
Cash flows used in investing activities	(29,204)	(36,981)	7,777
Cash flows used in financing activities	(126,215)	(79,723)	(46,492)
Net change in cash and cash equivalents	24,796	49,392	(24,596)

*Cash Flows - Operating Activities*

For the second quarter of Fiscal 2018, cash flows generated from operating activities totalled \$180.2 million, compared to \$166.1 million for the second quarter of Fiscal 2017. The increase was primarily driven by higher net earnings in the quarter.

*Cash Flows - Investing Activities*

For the second quarter of Fiscal 2018, cash flows used in investing activities totalled \$29.2 million, compared to \$37.0 million for the second quarter of Fiscal 2017. This decrease relates primarily to the fact that the second quarter of Fiscal 2017 included expenses related to the construction of the new warehouse in Montreal, Québec.

*Cash Flows - Financing Activities*

For the second quarter of Fiscal 2018, cash flows used in financing activities totalled \$126.2 million, compared to \$79.7 million for the second quarter of Fiscal 2017. The decrease in net borrowings on long-term debt in the second quarter of Fiscal 2018 was partially offset by fewer repurchases of shares under the normal course issuer bid.

**Cash Flows for the First Six Months of Fiscal 2018**

*(dollars in thousands)*

	<b>26-Week Periods Ended</b>		
	<b>July 30, 2017</b>	<b>July 31, 2016</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	264,375	204,520	59,855
Cash flows used in investing activities	(48,717)	(86,003)	37,286
Cash flows used in financing activities	(198,447)	(69,765)	(128,682)
Net change in cash and cash equivalents	17,211	48,752	(31,541)

*Cash Flows - Operating Activities*

For the first six months of Fiscal 2018, cash flows generated from operating activities totalled \$264.4 million, compared to \$204.5 million for the first six months of Fiscal 2017. The increase was primarily driven by higher net earnings.

*Cash Flows - Investing Activities*

For the first six months of Fiscal 2018, cash flows used in investing activities totalled \$48.7 million, compared to \$86.0 million for the first six months of Fiscal 2017. This decrease relates primarily to the fact that the first six months of Fiscal 2017 included expenses related to the construction of the new warehouse in Montreal, Québec.

*Cash Flows - Financing Activities*

For the first six months of Fiscal 2018, cash flows used in financing activities totalled \$198.5 million, compared to \$69.8 million for the first six months of Fiscal 2017 as a result of a decrease in net borrowings on long-term debt.

***Capital Expenditures***

Capital expenditures relate to investments in information technology projects, new stores and a new warehousing facility.

For the second quarter of Fiscal 2018, capital expenditures totalled \$29.4 million, compared to \$36.9 million for the second quarter of Fiscal 2017. Quarter over quarter, capital expenditures have decreased mainly due to the fact that the second quarter of Fiscal 2017 included expenses related to the construction of the new warehouse in Montreal, Québec.

For the first six months of Fiscal 2018, capital expenditures totalled \$49.1 million, compared to \$86.1 million for the first six months of Fiscal 2017. The latter amount included, among other things, \$22.1 million for the purchase of land and \$28.4 million in construction costs related to the new warehouse.

***Capital Resources***

The Corporation generates sufficient cash flows from operating activities to fund its planned growth strategy, service its debt and make dividend payments to shareholders. As at July 30, 2017, the Corporation had \$79.2 million of cash and cash equivalents on hand and \$499.1 million available under the Credit Facility (hereinafter defined). These available funds provide funding flexibility to meet any unanticipated cash requirements.

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

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

***Senior Unsecured Notes***

On November 5, 2013, the Corporation issued fixed rate senior unsecured notes in the aggregate principal amount of \$400.0 million (the "3.095% Fixed Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 3.095% Fixed Rate Notes bear interest at a rate of 3.095% per annum, payable in equal semi-annual instalments, in arrears, on May 5 and November 5 of each year until maturity on November 5, 2018. As at July 30, 2017, the carrying value of the 3.095% Fixed Rate Notes was \$402.2 million.

On May 16, 2014, the Corporation issued floating rate senior unsecured notes in the aggregate principal amount of \$150.0 million (the "Original Series 1 Floating Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. On April 8, 2015, the Corporation issued additional floating rate senior unsecured notes in the aggregate principal amount of \$125.0 million (the "Additional Series 1 Floating Rate Notes", and collectively with the Original Series 1 Floating Rate Notes, the "Series 1 Floating Rate Notes") on the same basis as the Original Series 1 Floating Rate Notes, all maturing on May 16, 2017. On May 16, 2017, the Corporation repaid the principal and all accrued and unpaid interest on the Series 1 Floating Rate Notes.

On July 22, 2016, the Corporation issued fixed rate senior unsecured notes in the aggregate principal amount of \$525.0 million (the "2.337% Fixed Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 2.337% Fixed Rate Notes bear interest at a rate of 2.337% per annum, payable in equal semi-annual instalments, in arrears, on January 22 and July 22 of each year until maturity on July 22, 2021. As at July 30, 2017, the carrying value of the 2.337% Fixed Rate Notes was \$523.4 million.

On March 16, 2017, the Corporation issued series 2 floating rate senior unsecured in the aggregate principal amount of \$225.0 million (the "Original Series 2 Floating Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Original Series 2 Floating Rate Notes bear interest at a rate equal to the 3-month bankers' acceptance rate (CDOR) plus 59 basis points (or 0.59%), set quarterly on the 16<sup>th</sup> day of March, June, September and December of each year. Interest is payable in cash quarterly, in arrears, on the 16<sup>th</sup> day of March, June, September and December of each year until maturity on March 16, 2020.

On May 10, 2017, the Corporation issued additional series 2 floating rate senior unsecured notes in the aggregate principal amount of \$75.0 million (the "Additional Series 2 Floating Rates Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The Additional Series 2 Floating Rate Notes constitute an increase to the \$225.0 million aggregate principal amount of Original Series 2 Floating Rate Notes due March 16, 2020 issued by the Corporation on March 16, 2017. The Additional Series 2 Floating Rate Notes were issued at a premium of 0.284% of the principal amount thereof, for aggregate gross proceeds of \$75.2 million. As at the date of issuance, the effective spread over the 3-month bankers' acceptance rate (CDOR) for the Additional Series 2 Floating Rate Notes was 49 basis points (or 0.49%). Once issued, they bear interest at the same rate as the Original Series 2 Floating Rate Notes, and interest is payable in cash quarterly, in arrears, concurrently with the payment of interest on the Original Series 2 Floating Rate Notes. All other terms and conditions applicable to the Original Series 2 Floating Rate Notes also apply to the Additional Series 2 Floating Rate Notes, and the Additional Series 2 Floating Rate Notes are treated as a single series with the Original Series 2 Floating Rate Notes (collectively, the "Series 2 Floating Rate Notes"). As at July 30, 2017, the carrying value of the Series 2 Floating Rate Notes was \$299.7 million.

On May 10, 2017, the Corporation also issued fixed rate senior unsecured notes in the aggregate principal amount of \$250.0 million (the "2.203% Fixed Rate Notes"), on a private placement basis in Canada, in reliance upon exemptions from the prospectus requirements under applicable securities legislation. The 2.203% Fixed Rate Notes bear an interest rate of 2.203% per annum, payable in equal semi-annual instalments, in arrears, on the 10<sup>th</sup> day of May and November of each year until maturity on November 10, 2022. As at July 30, 2017, the carrying value of the 2.203% Fixed Rate Notes was \$250.1 million.

The 3.095% Fixed Rate Notes, the 2.337% Fixed Rate Notes, the 2.203% Fixed Rate Notes and the Series 2 Floating Rate Notes (collectively, the "Senior Unsecured Notes") are direct unsecured obligations of the Corporation and rank equally and *pari passu* with all other existing and future unsecured and unsubordinated indebtedness of the Corporation. All Senior Unsecured Notes are rated BBB, with a stable trend, by DBRS Limited.

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



*Credit Facility*

The Corporation has access to a \$500.0 million unsecured revolving credit facility (the "Credit Facility") made available under the Second Amended and Restated Credit Agreement entered into with the lenders on October 25, 2013 (the "SAR Credit Agreement"), as amended on December 3, 2013, June 10, 2014, November 3, 2014, October 30, 2015, January 29, 2016, November 21, 2016 and June 29, 2017 in order to, among other things, modify the amount of outstanding commitments from the lenders and extend the term.

The term of the SAR Credit Agreement is now December 14, 2021. The commitments in the amount of \$250.0 million initially made in 2013 are available until December 14, 2021, and the commitments in the amount of \$250.0 million made in 2016 are now available until January 29, 2019.

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 \$1.3 billion.

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

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

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

As at July 30, 2017, there were no amounts outstanding under the Credit Facility (January 29, 2017 - \$130.0 million), other than letters of credit issued for the purchase of inventories which amounted to \$0.9 million (January 29, 2017 - \$0.8 million). As at July 30, 2017, the Corporation was in compliance with all of its financial covenants.

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

The table below analyzes the Corporation's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as at July 30, 2017. Accounts payable and accrued liabilities exclude liabilities that are not contractual (such as income tax liabilities created as a result of statutory requirements imposed by governments).

(dollars in thousands)

	<b>Less than 3 Months \$</b>	<b>3 Months to 1 Year \$</b>	<b>1-5 Years \$</b>	<b>Total \$</b>
Trade payables and accrued liabilities	176,570	-	-	176,570
Dividend payable	12,461	-	-	12,461
Principal repayment on:				
2.203% Fixed Rate Notes	-	-	250,000	250,000
2.337% Fixed Rate Notes	-	-	525,000	525,000
3.095% Fixed Rate Notes	-	-	400,000	400,000
Series 2 Floating Rate Notes	-	-	300,000	300,000
Interest payments on:				
2.203% Fixed Rate Notes	-	5,508	24,784	30,292
2.337% Fixed Rate Notes	-	12,269	36,808	49,077
3.095% Fixed Rate Notes	-	12,380	6,190	18,570
Series 2 Floating Rate Notes <sup>(1)</sup>	1,403	4,209	9,818	15,430
	<u>190,434</u>	<u>34,366</u>	<u>1,552,600</u>	<u>1,777,400</u>

<sup>(1)</sup> Based on interest rates in effect as at July 30, 2017.

The following table summarizes the Corporation's off-balance sheet arrangements and commitments as at July 30, 2017.

(dollars in thousands)

	<b>Less than 3 Months \$</b>	<b>3 Months to 1 Year \$</b>	<b>1-5 Years \$</b>	<b>Over 5 Years \$</b>	<b>Total \$</b>
Obligations under operating leases <sup>(2)</sup>	42,719	128,156	576,668	314,809	1,062,352
Letters of credit	930	-	-	-	930
	<u>43,649</u>	<u>128,156</u>	<u>576,668</u>	<u>314,809</u>	<u>1,063,282</u>

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

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

*Financial Instruments*

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

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

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

In the second quarter of Fiscal 2018, there was no material change to the nature of risks arising from foreign exchange forward contracts and related risk management.

For a 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 2018 and to Note 14 to the Corporation's annual audited consolidated financial statements for Fiscal 2017.

**Related Party Transactions**

*Property Leases*

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

Rental expenses charged by entities controlled by Larry Rossy or certain of his immediate family members totalled \$5.3 million and \$11.0 million for the 13-week and 26-week periods ended July 30, 2017, respectively, compared to \$5.3 million and \$11.0 million for the 13-week and 26-week periods ended July 31, 2016, 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 expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

The significant estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty for the condensed interim consolidated financial statements for the second quarter of Fiscal 2018 were the same as those applied to the audited consolidated financial statements for Fiscal 2017. Refer to Note 5 to the Corporation's annual audited consolidated financial statements for Fiscal 2017 for details.

**Significant Standards and Interpretations**

In January 2016, the IASB issued IFRS 16, “Leases”, which will replace IAS 17, “Leases”. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Corporation has adopted IFRS 15, “Revenue from Contracts with Customers”. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Corporation has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with lease arrangements.

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

<b>Impacted Areas of the Business</b>	<b>Analysis</b>	<b>Impact</b>
Financial Reporting	The analysis includes which contracts will be in scope as well as the options available under the new standard such as whether to early adopt, the two recognition and measurement exemptions and whether to apply the new standard on a full retrospective application in accordance with IAS 8 or choose the “modified retrospective approach”.	The Corporation is in the process of analyzing the full impact of the adoption of IFRS 16 on the Corporation’s consolidated statement of financial position and consolidated statement of net earnings and comprehensive income (loss). In addition, the Corporation has begun working with a third party provider of advisory services. As at July 30, 2017, the operating leases disclosed in note 11 to the unaudited condensed interim consolidated financial statements for the second quarter of Fiscal 2018 are in scope with IFRS 16.
Information Systems	The Corporation is analyzing the need to make changes within its information systems environment to optimize the management of more than 1,000 leases that will fall within the scope of the new standard.	The Corporation has been working with a third party to evaluate different IT solutions for the eventual recognition and measurement of leases in scope. An IT solution was selected during the 13-week period ended July 30, 2017.
Internal Controls	The Corporation will be performing an analysis of the changes to the control environment as a result of the adoption of IFRS 16.	The Corporation is currently evaluating the impact of IFRS 16 on its control environment.
Stakeholders	The Corporation will be performing an analysis of the impact on the disclosure to its stakeholders as a result of the adoption of IFRS 16.	The Corporation has begun discussing the impact of IFRS 16 to stakeholders.

In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” concerning classification and measurement, impairment and hedge accounting, to supersede IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 will be effective for years beginning on or after January 1, 2018, with early adoption permitted. The Corporation is in the final stages of analyzing the impact of the adoption of IFRS 9 on the Corporation’s consolidated statement of financial position and consolidated statement of net earnings and comprehensive income and cash flows. The impact is not expected to be significant.

In May 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers”. IFRS 15 replaces all previous revenue recognition standards, including IAS 18, “Revenue”. In September 2015, the IASB deferred the effective date of IFRS 15 from January 1, 2017 to annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is in the final stages of analyzing the impact of the adoption of IFRS 15 on the Corporation’s consolidated statement of financial position and consolidated statement of net earnings and comprehensive income. The impact is not expected to be significant.

## **Risks and Uncertainties**

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

The major risks and uncertainties that could materially affect the Corporation's future business results are described in the Corporation's annual MD&A and annual information form for Fiscal 2017 (which are available on SEDAR at [www.sedar.com](http://www.sedar.com)), and are divided into the following categories:

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

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

## **Controls and Procedures**

There were no changes in our internal control over financial reporting that occurred during the period beginning on May 1, 2017 and ended on July 30, 2017 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **Dividend**

On September 7, 2017, the Corporation announced that the Board of Directors had approved a quarterly cash dividend for holders of common shares of \$0.11 per common share. The Corporation's quarterly dividend will be paid on November 1, 2017 to shareholders of record at the close of business on October 6, 2017 and is designated as an "eligible dividend" for Canadian tax purposes.

## **Normal Course Issuer Bid**

On June 7, 2017, the Corporation announced that the Board of Directors had approved the renewal of the normal course issuer bid and that the Corporation had received the approval from the TSX to purchase for cancellation up to 5,680,390 common shares, representing 5.0% of the 113,607,809 common shares issued and outstanding as at the close of markets on June 6, 2017, during the 12-month period from June 19, 2017 to June 18, 2018 (the "2017-2018 NCIB").

During the second quarter of Fiscal 2018, a total of 1,303,900 common shares were repurchased for cancellation under the 2017-2018 NCIB, at a weighted average price of \$122.86 per common share, for a total cash consideration of \$160.2 million. The Corporation's share capital was reduced by \$4.8 million and the remaining \$155.4 million was accounted for as a reduction of retained earnings.

During the first six months of Fiscal 2018, a total of 2,991,140 common shares were repurchased for cancellation under the 2016-2017 NCIB (which expired on June 16, 2017) and the 2017-2018 NCIB, at a weighted average price of \$113.92 per common share, for a total cash consideration of \$340.8 million. The Corporation's share capital was reduced by \$10.9 million and the remaining \$329.8 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.

As at September 6, 2017, there were 112,336,659 common shares issued and outstanding. In addition, there were 2,542,150 options, each exercisable for one common share, issued and outstanding as at September 6, 2017. Assuming exercise of all outstanding options, there would have been 114,878,809 common shares issued and outstanding on a fully diluted basis as at September 6, 2017.

**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".