

Dollarama Inc.

Condensed Interim Consolidated Financial
Statements

**For the 13-week and 26-week periods ended
July 31, 2022 and August 1, 2021**

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

Dollarama Inc.

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

	Note	July 31, 2022	January 30, 2022
		\$	\$
Assets			
Current assets			
Cash		70,865	71,058
Accounts receivable		34,681	26,260
Prepaid expenses		12,003	13,135
Inventories		823,432	590,927
Derivative financial instruments	9	10,385	15,987
		<u>951,366</u>	<u>717,367</u>
Non-current assets			
Right-of-use assets	5	1,549,724	1,480,255
Property, plant and equipment		774,731	761,876
Intangible assets		163,144	164,066
Derivative financial instruments	9	287	290
Goodwill		727,782	727,782
Equity-accounted investment		233,766	211,926
		<u>4,400,800</u>	<u>4,063,562</u>
Liabilities and shareholders' deficit			
Current liabilities			
Accounts payable and accrued liabilities		328,752	283,125
Short-term borrowings	6	396,558	89,386
Dividend payable		15,984	14,891
Derivative financial instruments	9	14,972	3,435
Income taxes payable		26,073	62,516
Current portion of long-term debt	6	258,392	257,674
Current portion of lease liabilities	5	208,861	200,864
		<u>1,249,592</u>	<u>911,891</u>
Non-current liabilities			
Non-current portion of long-term debt	6	1,535,794	1,539,240
Non-current portion of lease liabilities	5	1,592,810	1,526,564
Derivative financial instruments	9	313	-
Deferred income taxes		145,170	151,901
		<u>4,523,679</u>	<u>4,129,596</u>
Shareholders' deficit			
Share capital	7	490,149	479,446
Contributed surplus	7	35,572	32,924
Deficit		(644,927)	(578,079)
Accumulated other comprehensive loss		(3,673)	(325)
		<u>(122,879)</u>	<u>(66,034)</u>
Total shareholders' deficit		<u>(122,879)</u>	<u>(66,034)</u>
Total liabilities and shareholders' deficit		<u>4,400,800</u>	<u>4,063,562</u>

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

Dollarama Inc.

Interim Consolidated Statements of Changes in Shareholders' Deficit

For the 26-week periods ended

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

	Note	Number of common shares	Share capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance – January 30, 2022	7	292,813,569	479,446	32,924	(578,079)	(325)	(66,034)
Net earnings		-	-	-	338,981	-	338,981
Other comprehensive income		-	-	-	-	4,345	4,345
Total comprehensive income		-	-	-	338,981	4,345	343,326
Transfer of realized cash flow hedge gains to inventory		-	-	-	-	(7,693)	(7,693)
Dividends declared		-	-	-	(32,190)	-	(32,190)
Repurchase and cancellation of common shares	7	(5,135,697)	(8,560)	-	(373,639)	-	(382,199)
Share-based compensation	7	-	-	6,259	-	-	6,259
Issuance of common shares	7	477,750	15,652	-	-	-	15,652
Reclassification for the exercise of share options	7	-	3,611	(3,611)	-	-	-
Balance – July 31, 2022		288,155,622	490,149	35,572	(644,927)	(3,673)	(122,879)
Balance – January 31, 2021	7	310,266,429	485,487	28,527	(149,983)	(29,177)	334,854
Net earnings		-	-	-	259,802	-	259,802
Other comprehensive loss		-	-	-	-	(17,186)	(17,186)
Total comprehensive income (loss)		-	-	-	259,802	(17,186)	242,616
Transfer of realized cash flow hedge losses to inventory		-	-	-	-	20,796	20,796
Dividends declared		-	-	-	(30,812)	-	(30,812)
Repurchase and cancellation of common shares	7	(7,819,954)	(12,457)	-	(434,479)	-	(446,936)
Share-based compensation	7	-	-	4,384	-	-	4,384
Issuance of common shares	7	434,300	12,157	-	-	-	12,157
Reclassification for the exercise of share options	7	-	2,708	(2,708)	-	-	-
Balance – August 1, 2021		302,880,775	487,895	30,203	(355,472)	(25,567)	137,059

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

Dollarama Inc.

Interim Consolidated Statements of Net Earnings and Comprehensive Income

For the 13-week and 26-week periods ended

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

	Note	13-week periods ended		26-week periods ended	
		July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
		\$	\$	\$	\$
Sales		1,217,060	1,029,348	2,289,944	1,983,594
Cost of sales	12	687,028	582,688	1,308,020	1,133,494
Gross profit		530,032	446,660	981,924	850,100
General, administrative and store operating expenses		168,324	157,093	328,949	315,765
Depreciation and amortization	12	81,979	73,185	161,951	144,587
Share of net earnings of equity-accounted investment		(7,680)	(4,100)	(16,417)	(7,503)
Operating income		287,409	220,482	507,441	397,251
Financing costs		26,668	22,856	51,023	45,002
Earnings before income taxes		260,741	197,626	456,418	352,249
Income taxes	8	67,262	51,398	117,437	92,447
Net earnings		193,479	146,228	338,981	259,802
Other comprehensive income					
<i>Items that may be reclassified subsequently to net earnings</i>					
Realized gains on financial instruments not subject to basis adjustment		-	723	-	723
Reclassification of amortization of net gains on financial instruments not subject to basis adjustments		(133)	(91)	(266)	(169)
Foreign currency translation adjustments		(925)	2,715	679	(4,595)
Share of other comprehensive income (loss) of equity-accounted investment		(2,333)	382	1,271	(65)
Income tax recovery relating to these items		35	21	70	45
<i>Items that will not be reclassified subsequently to net earnings</i>					
Unrealized gain (loss) on derivative financial instruments subject to basis adjustments		(5,976)	9,492	3,373	(17,254)
Income tax recovery (expense) relating to these items		1,676	(2,948)	(782)	4,129
Total other comprehensive income (loss), net of income taxes		(7,656)	10,294	4,345	(17,186)
Total comprehensive income		185,823	156,522	343,326	242,616
Earnings per common share					
Basic net earnings per common share	10	\$0.67	\$0.48	\$1.16	\$0.85
Diluted net earnings per common share	10	\$0.66	\$0.48	\$1.16	\$0.84
Weighted average number of common shares outstanding (thousands)	10	290,482	304,779	291,602	307,090
Weighted average number of diluted common shares outstanding (thousands)	10	292,173	306,242	293,329	308,533

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

Dollarama Inc.

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

	Note	13-week periods ended		26-week periods ended	
		July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
		\$	\$	\$	\$
Operating activities					
Net earnings		193,479	146,228	338,981	259,802
Adjustments to reconcile net earnings to net cash generated from operating activities:					
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	12	81,979	73,185	161,951	144,587
Amortization of debt issue costs		627	598	1,183	1,192
Amortization of net gains on bond lock and bond forward contracts		(133)	(91)	(266)	(169)
Share-based compensation	7	3,057	2,167	6,259	4,384
Financing costs on short-term borrowings and long-term debt and realized gains on financial instruments		(8,282)	(6,533)	324	595
Deferred income taxes		(359)	4,255	(4,821)	5,379
Net gain on lease remeasurements		(367)	(432)	(995)	(1,284)
Share of net earnings of equity-accounted investment		(7,680)	(4,100)	(16,417)	(7,503)
		<u>262,321</u>	<u>215,277</u>	<u>486,199</u>	<u>406,983</u>
Changes in non-cash working capital components	13	(152,985)	49,384	(234,083)	(8,339)
Net cash generated from operating activities		<u>109,336</u>	<u>264,661</u>	<u>252,116</u>	<u>398,644</u>
Investing activities					
Additions to property, plant and equipment		(31,600)	(38,301)	(58,313)	(64,372)
Additions to intangible assets		(5,479)	(6,380)	(10,109)	(10,679)
Proceeds from disposal of property, plant and equipment		34	198	52	371
Net cash used in investing activities		<u>(37,045)</u>	<u>(44,483)</u>	<u>(68,370)</u>	<u>(74,680)</u>
Financing activities					
Proceeds from long-term debt issued (1.871% Fixed Rate Notes)	6	-	375,000	-	375,000
Proceeds from long-term debt issued (2.443% Fixed Rate Notes)	6	-	375,000	-	375,000
Net proceeds (repayment) from short-term borrowings	6	266,491	(139,553)	314,188	-
Repayment of the Series 2 Floating Rate Notes and the Series 3 Floating Rate Notes	6	-	-	-	(300,000)
Repayment of 2.337% Fixed Rate Notes	6	-	(525,000)	-	(525,000)
Payment of debt issue costs		(738)	(3,996)	(738)	(4,174)
Principal elements of lease liabilities	5	(49,333)	(45,152)	(99,746)	(87,591)
Issuance of common shares	7	1,647	4,978	15,652	12,157
Dividends paid		(16,206)	(15,501)	(31,096)	(30,084)
Repurchase and cancellation of common shares	7	(274,861)	(163,574)	(382,199)	(446,936)
Net cash used in financing activities		<u>(73,000)</u>	<u>(137,798)</u>	<u>(183,939)</u>	<u>(631,628)</u>
Change in cash		<u>(709)</u>	<u>82,380</u>	<u>(193)</u>	<u>(307,664)</u>
Cash – beginning of period		<u>71,574</u>	<u>49,100</u>	<u>71,058</u>	<u>439,144</u>
Cash – end of period		<u>70,865</u>	<u>131,480</u>	<u>70,865</u>	<u>131,480</u>

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

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

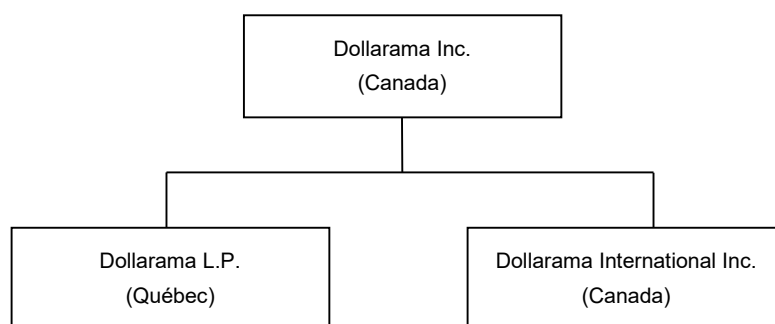
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise noted)

1 General information

Dollarama Inc. (the “Corporation”) was formed on October 20, 2004 under the *Canada Business Corporations Act*. The Corporation offers a broad assortment of general merchandise, consumable products and seasonal items at select, fixed price points up to \$5.00 in-store and online in Canada. As at July 31, 2022, the Corporation maintains retail operations in every Canadian province and as well as Yukon and Northwest Territories.

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

As at July 31, 2022, the significant entities within the legal structure of the Corporation are as follows:



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

Dollarama International Inc. (“Dollarama International”) has retail operations in Latin America through its 50.1% equity investment in Dollarcity, a value retailer headquartered in Panama. Dollarcity offers a broad assortment of general merchandise, consumable products and seasonal items at select, fixed price points up to US\$4.00 (or the equivalent in local currency) in stores located in El Salvador, Guatemala, Colombia and Peru.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

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

2 Basis of preparation

These unaudited condensed interim consolidated financial statements were approved by the board of directors of the Corporation (the “Board of Directors”) for issue on September 9, 2022.

The Corporation prepares its condensed interim consolidated financial statements in accordance with generally accepted accounting principles in Canada (“GAAP”) as set out in the CPA Canada Handbook – Accounting under Part I, which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, “Interim Financial Reporting”. In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation’s audited annual consolidated financial statements for the year ended January 30, 2022 (“Fiscal 2022”), which have been prepared in accordance with IFRS as issued by the IASB. In management’s opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented.

Seasonality of operations

The Corporation’s sales generally increase ahead of major holidays, with December representing the highest proportion of sales, but otherwise experience limited seasonal fluctuations. However, the occurrence of certain events that are beyond the Corporation’s control, such as unusually adverse weather or an epidemic or pandemic outbreak (like the COVID-19 pandemic), and that cause disruption in its operations could materially adversely affect the business and financial results of the Corporation. Consequently, results for the 13-week and 26-week periods ended July 31, 2022 may not be representative of results for subsequent quarters or for the full fiscal year.

3 Summary of significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as outlined in Note 3 to the Fiscal 2022 audited consolidated financial statements.

4 Critical accounting estimates and judgments

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

These unaudited condensed interim consolidated financial statements have been prepared using the critical accounting estimates and judgments as outlined in Note 5 to the Fiscal 2022 audited consolidated financial statements.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

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

5 Leases

As at July 31, 2022, the Corporation owned one store, one distribution centre, one warehouse and leased 1,443 stores, its head office, five warehouses and some equipment.

a) Additions to right-of-use assets

Additions to the right-of-use assets during the 13-week and 26-week periods ended July 31, 2022 amounted to \$81,254 and \$178,034, respectively (13-week and 26-week periods ended August 1, 2021 – \$66,281 and \$137,669, respectively).

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

	13-week periods ended		26-week periods ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
	\$	\$	\$	\$
Depreciation of right-of-use assets	53,428	47,383	105,522	93,919
Gain on lease remeasurements	(371)	(362)	(1,003)	(1,305)
Interest on lease liabilities	12,546	11,437	24,567	22,928
Variable lease expenses not included in the measurement of lease liabilities	25,135	24,162	51,172	47,790
Expenses relating to short-term leases	3,831	4,723	7,669	9,639

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

	13-week periods ended		26-week periods ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
	\$	\$	\$	\$
Lease cash flows				
Fixed payments	63,932	59,027	127,742	117,387
Variable payments	26,376	23,836	52,497	46,488
Short-term leases	3,831	4,723	7,669	9,639
Tenant incentives received	(2,053)	(2,438)	(3,429)	(6,868)
	<u>92,086</u>	<u>85,148</u>	<u>184,479</u>	<u>166,646</u>
Principal elements of lease liabilities				
Fixed payments	63,932	59,027	127,742	117,387
Tenant incentives received	(2,053)	(2,438)	(3,429)	(6,868)
Interest on lease liabilities	(12,546)	(11,437)	(24,567)	(22,928)
	<u>49,333</u>	<u>45,152</u>	<u>99,746</u>	<u>87,591</u>

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

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

6 Debt

	July 31, 2022	January 30, 2022
	\$	\$
Long-term debt outstanding consists of the following as at:		
Senior unsecured notes bearing interest at:		
Fixed annual rate of 2.443% payable in equal semi-annual instalments, maturing July 9, 2029 (the "2.443% Fixed Rate Notes")	375,000	375,000
Fixed annual rate of 1.505% payable in equal semi-annual instalments, maturing September 20, 2027 (the "1.505% Fixed Rate Notes")	300,000	300,000
Fixed annual rate of 1.871% payable in equal semi-annual instalments, maturing July 8, 2026 (the "1.871% Fixed Rate Notes")	375,000	375,000
Fixed annual rate of 3.55% payable in equal semi-annual instalments, maturing November 6, 2023 (the "3.55% Fixed Rate Notes")	500,000	500,000
Fixed annual rate of 2.203% payable in equal semi-annual instalments, maturing November 10, 2022 (the "2.203% Fixed Rate Notes", and collectively with the 2.443% Fixed Rate Notes, the 1.505% Fixed Rate Notes, the 1.871% Fixed Rate Notes and the 3.55% Fixed Rate Notes, the "Senior Unsecured Notes")	250,000	250,000
Less: Unamortized debt issue costs, including \$2,133 (January 30, 2022 – \$1,632) for the credit facility	(7,564)	(8,009)
Accrued interest on the Senior Unsecured Notes	8,456	7,850
Fair value hedge – basis adjustment on interest rate swap	(6,706)	(2,927)
	1,794,186	1,796,914
Current portion (includes unamortized debt issue costs, accrued interest on the Senior Unsecured Notes, and the Senior Unsecured Notes with a maturity date falling within the next 52-week period, when applicable)	(258,392)	(257,674)
	<u>1,535,794</u>	<u>1,539,240</u>

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

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

6 Debt (cont'd)

The table below provides the carrying values and fair values of the Senior Unsecured Notes as at July 31, 2022 and January 30, 2022. The fair values of the Senior Unsecured Notes were determined as a level 2 in the fair value hierarchy.

	July 31, 2022		January 30, 2022	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Fixed Rate Notes				
2.443% Fixed Rate Notes	373,900	333,338	373,809	361,913
1.505% Fixed Rate Notes	300,385	263,700	300,277	280,650
1.871% Fixed Rate Notes	374,099	344,438	373,948	363,675
3.55% Fixed Rate Notes	503,489	496,650	502,387	512,950
2.203% Fixed Rate Notes	251,152	249,275	251,052	251,600
	<u>1,803,025</u>	<u>1,687,401</u>	<u>1,801,473</u>	<u>1,770,788</u>

Credit Agreement

On July 5, 2022, the Corporation and the lenders entered into a fifth amending agreement to the Third Amended and Restated Credit Agreement (the "TARCA") in order to, among other things, (i) convert the credit facilities to sustainability-linked credit facilities ("SLL"), (ii) increase the size of Facility B by \$250,000 for a total amount of \$450,000, bringing the total credit available under the four facilities from \$800,000 to \$1,050,000 (collectively, the "Credit Facility"), and (iii) extend the term of Facility A in the amount of \$250,000 from July 6, 2026 to July 5, 2027, extend the term of Facility B, in the amount of \$ 450,000, from July 5, 2024 to July 5, 2025, extend the term of Facility C, in the amount of \$50,000, from July 5, 2024 to July 5, 2025, and extend the term of Facility D, in the amount of \$300,000, from July 6, 2022 to July 5, 2023.

The SLL is tied to two specific sustainability performance targets related to the Corporation's overall Environmental, Social and Governance strategy and which are linked to incentive pricing terms, namely: i) Climate Change and Energy Management; Reduction of Scope 1 and Scope 2 greenhouse gas emissions intensity and ii) Diversity, Equity and Inclusion: Increase of female gender representation in management positions.

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

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

The Credit Facility remains guaranteed by Dollarama L.P. and Dollarama GP Inc. (collectively, with the Corporation, the "Credit Parties"). The TARCA 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 TARCA also limits the ability of the

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

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

6 Debt (cont'd)

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 31, 2022 and January 30, 2022, no amount was outstanding under the TARCA. As at July 31, 2022, the Corporation had \$1,049,130 available under its Credit Facility (January 30, 2022 –\$798,730), of which \$396,558 were reserved to serve as a backstop for outstanding amounts under the US commercial paper program (January 30, 2022 – \$89,386). As at July 31, 2022, there were letters of credit issued for the purchase of inventories which amounted to \$870 (January 30, 2022 – \$1,270) and the Corporation was in compliance with all of its financial covenants.

Short-term borrowings

Under the terms of its US commercial paper program, the Corporation may issue, from time to time, on a private placement basis, unsecured commercial paper notes with maturities not in excess of 397 days from the date of issue (the “USCP Notes”). On July 7, 2022, the US commercial paper program was upsized from US\$500,000 to US\$700,000. As a result, the aggregate principal amount of USCP Notes outstanding at any one time under the US commercial paper program, as amended, may not exceed US\$700,000. The Corporation uses derivative financial instruments to convert the net proceeds from the issuance of USCP Notes into Canadian dollars and uses those proceeds for general corporate purposes.

The USCP Notes are direct unsecured obligations of the Corporation and rank equally with all of its other unsecured and unsubordinated indebtedness. The USCP Notes are unconditionally guaranteed by Dollarama L.P. and Dollarama GP Inc., each a wholly-owned subsidiary of the Corporation. The Corporation’s upsized Credit Facility will continue to serve as a liquidity backstop for the repayment of the USCP Notes.

As at July 31, 2022, the USCP Notes outstanding had carrying values that approximated their fair values, and their fair value was determined as a level 2 in the fair value hierarchy. As at July 31, 2022, the amount outstanding under the US commercial paper program was US\$309,934 (\$396,558) (January 30, 2022 – US\$70,000 (\$89,386)).

7 Shareholders’ deficit

a) Share capital

Normal course issuer bid

On July 5, 2022, the Corporation announced the renewal of its normal course issuer bid and the approval from the TSX to repurchase for cancellation up to 18,713,765 common shares, representing 7.5% of the public float as at the close of markets on June 30, 2022, during the 12-month period from July 7, 2022 to July 6, 2023 (the “2022-2023 NCIB”).

The total number of common shares repurchased for cancellation under the 2022-2023 NCIB and the normal course issuer bid previously in effect during the 13-week period ended July 31, 2022 amounted to 3,690,894 common shares (August 1, 2021 – 2,884,381), for a total cash consideration of \$274,861 (August 1, 2021 – \$163,574). For the 13-week period ended July 31, 2022, the Corporation’s share capital was reduced by \$6,186 (August 1, 2021 – \$4,616) and the remaining \$268,675 (August 1, 2021 – \$158,958) was accounted for as an increase in deficit.

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

July 31, 2022

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

7 Shareholders' deficit (cont'd)

The total number of common shares repurchased for cancellation under the 2022-2023 NCIB and the normal course issuer bid previously in effect during the 26-week period ended July 31, 2022 amounted to 5,135,697 common shares (August 1, 2021 – 7,819,954), for a total cash consideration of \$382,199 (August 1, 2021 – \$446,936). For the 26-week period ended July 31, 2022, the Corporation's share capital was reduced by \$8,560 (August 1, 2021 – \$12,457) and the remaining \$373,639 (August 1, 2021 – \$434,479) was accounted for as an increase in deficit.

b) Contributed surplus

Share-based compensation

Performance share units (PSU)

During the 13-week and 26-week periods ended July 31, 2022, the Corporation recognized a share-based compensation expense for PSUs of \$2,033 and \$3,515 (August 1, 2021 – \$487 and \$652), respectively.

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

	<u>July 31, 2022</u>	<u>August 1, 2021</u>
Outstanding – beginning of period	103,953	-
Granted	74,564	103,953
Vested ⁽¹⁾	-	-
Outstanding – end of period	<u>178,517</u>	<u>103,953</u>

⁽¹⁾ Vesting varies from 0% to 200% depending on performance against the criteria at the end of the three-year performance period.

Share options

During the 13-week and 26-week periods ended July 31, 2022, the Corporation recognized a share-based compensation expense for share options of \$1,024 and \$2,744, respectively (13-week and 26-week periods ended August 1, 2021 – \$1,680 and \$3,732, respectively).

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

	<u>July 31, 2022</u>		<u>August 1, 2021</u>	
	<u>Number of share options</u>	<u>Weighted average exercise price (\$)</u>	<u>Number of share options</u>	<u>Weighted average exercise price (\$)</u>
Outstanding – beginning of period	3,819,100	37.28	4,229,500	33.81
Granted	252,435	73.79	396,000	56.50
Exercised	(477,750)	32.76	(434,300)	27.99
Forfeited	(86,700)	45.08	(58,350)	46.76
Outstanding – end of period	<u>3,507,085</u>	<u>40.33</u>	<u>4,132,850</u>	<u>36.42</u>
Exercisable – end of period	<u>2,240,950</u>	<u>32.65</u>	<u>2,443,200</u>	<u>28.74</u>

Dollarama Inc.**Notes to Condensed Interim Consolidated Financial Statements****July 31, 2022**

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

7 Shareholders' deficit (cont'd)

Information relating to share options outstanding and exercisable as at July 31, 2022 is as follows:

Range of exercise prices	Share options outstanding			Share options exercisable		
	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price (\$)	Weighted average remaining life (in months)	Number of share options	Weighted average exercise price (\$)
\$12.02 - \$13.67	8	59,600	12.02	8	59,600	12.02
\$13.68 - \$18.72	20	543,100	14.80	20	543,100	14.80
\$18.73 - \$23.68	32	193,000	23.68	32	193,000	23.68
\$23.69 - \$30.20	44	291,000	30.20	44	291,000	30.20
\$30.21 - \$37.36	56	338,400	37.36	56	338,400	37.36
\$37.37 - \$56.50	88	1,829,550	48.13	82	815,850	47.10
\$56.51 - \$73.79	116	252,435	73.79	-	-	-
	68	3,507,085	40.33	52	2,240,950	32.65

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

	<u>July 31, 2022</u>	<u>August 1, 2021</u>
Exercise price per share	\$73.79	\$56.50
Dividend yield	0.3%	0.4%
Risk-free interest rate	2.4%	1.1%
Expected life	6.1 years	6.1 years
Expected volatility	25.7%	26.8%
Weighted average fair value of share options estimated at the grant date	\$21.72	\$15.30

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

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

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8 Income taxes

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. The statutory income tax rate for the 13-week and 26-week periods ended July 31, 2022 was 26.5% (August 1, 2021 – 26.5%). The Corporation's effective income tax rate for the 13-week and 26-week periods ended July 31, 2022 was 25.8% and 25.7%, respectively (August 1, 2021 – 26.0% and 26.2%, respectively).

9 Financial instruments

The Corporation uses derivative financial instruments in the management of its foreign currency and interest rate exposure. The Corporation documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions.

Interest Rate Risk Exposure

The Corporation uses bond forward contracts in advance of the refinancing of the 2.203% Fixed Rate Notes due November 10, 2022 as well as for the repayment of the short-term borrowings. These derivatives are designated as hedging instruments and are recorded on the consolidated statement of financial position at fair value. The gain or loss related to the effective portion of the change in fair value of the derivatives is recorded to other comprehensive income and will be reclassified to net earnings over the same period as the hedged interest payments are recorded in earnings. The hedged risk is defined as the variability in cash flows associated with coupons paid on the debt to be issued attributable to movements in the CAD benchmark rate. The CAD benchmark rate consists of the interpolated yield of Government of Canada bond curve with a term corresponding to the expected debt. Cash flows related to the expected bond's credit spread over the CAD benchmark are not designated as part of the hedging relationship.

A summary of the aggregate contractual nominal value, weighted average contract rate or interest rate, as applicable, statement of financial position location and estimated fair values of derivative financial instruments as at July 31, 2022 and January 30, 2022 is as follows:

Dollarama Inc.

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

9 Financial instruments (cont'd)

	Contractual nominal value	Weighted average contract rate/Interest rate	Statement of financial position	Fair value - Asset (Liability)	Nature of hedging relationship
	USD/CAD \$	USD/CAD/ Interest rate	Location	Significant other observable inputs (Level 2) \$	Recurring
As at July 31, 2022					
Hedging instruments for the forecasted U.S. dollar merchandise purchases					
USD Foreign exchange forward contracts	469,500	1.26	Current assets	8,850	Cash flow hedge
USD Foreign exchange forward contracts	24,000	1.27	Non-current assets	287	Cash flow hedge
USD Foreign exchange forward contracts	75,000	1.29	Current liabilities	(799)	Cash flow hedge
USD Foreign exchange forward contracts	25,000	1.29	Non-current liabilities	(313)	Cash flow hedge
USD Zero cost collar contracts	11,700	1.24 ⁽¹⁾ – 1.31 ⁽²⁾	Current assets	43	Cash flow hedge
USD Zero cost collar contracts	5,000	1.25 ⁽¹⁾ – 1.32 ⁽²⁾	Current liabilities	(2)	Cash flow hedge
	<u>610,200</u>			<u>8,066</u>	
Hedging instruments for the US commercial paper program					
USD Foreign exchange forward contracts	310,450	1.30	Current liabilities	(5,769)	Cash flow hedge
	<u>310,450</u>			<u>(5,769)</u>	
Hedging instruments for the fixed to floating interest rate notes					
Interest rate swap contracts	200,000	CDOR ⁽³⁾ + 2.73%	Current liabilities	(6,706)	Fair value hedge
	<u>200,000</u>			<u>(6,706)</u>	
Hedging instruments for the forecasted fixed rate note issuances					
CAD Bond forward sale contracts	67,000	2.05%	Current assets	1,492	Cash flow hedge
CAD Bond forward sale contracts	333,000	2.70%	Current liabilities	(1,696)	Cash flow hedge
	<u>400,000</u>			<u>(204)</u>	
Total	<u>1,520,650</u>			<u>(4,613)</u>	
As at January 30, 2022					
Hedging instruments for the forecasted U.S. dollar merchandise purchases					
USD Foreign exchange forward contracts	525,000	1.25	Current assets	14,544	Cash flow hedge
USD Foreign exchange forward contracts	10,000	1.25	Non-current assets	290	Cash flow hedge
USD Foreign exchange forward contracts	50,000	1.29	Current liabilities	(506)	Cash flow hedge
USD Zero cost collar contracts	40,000	1.22 ⁽¹⁾ – 1.29 ⁽²⁾	Current assets	450	Cash flow hedge
USD Zero cost collar contracts	5,000	1.25 ⁽¹⁾ – 1.32 ⁽²⁾	Current liabilities	(2)	Cash flow hedge
	<u>630,000</u>			<u>14,776</u>	
Hedging instruments for the US commercial paper program					
USD Foreign exchange forward contracts	70,000	1.26	Current assets	993	Cash flow hedge
	<u>70,000</u>			<u>993</u>	
Hedging instruments for the fixed to floating interest rate notes					
Interest rate swap contracts	200,000	CDOR ⁽³⁾ + 2.73%	Current liabilities	(2,927)	Fair value hedge
	<u>200,000</u>			<u>(2,927)</u>	
Total	<u>900,000</u>			<u>12,842</u>	

(1) Put strike

(2) Call strike

(3) 3-month CDOR

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

9 Financial instruments (cont'd)

For the 13-week and 26-week periods ended July 31, 2022, accumulated fair value gains of \$(2,834) and \$(770), respectively, (13-week and 26-week periods ended August 1, 2021 – accumulated fair value losses of \$13,602 and \$22,947, respectively) on USD foreign exchange forward contracts and USD zero cost collar contracts recorded in the carrying value of inventory were reclassified from inventory to the cost of sales in the condensed interim consolidated statement of net earnings and comprehensive income.

10 Earnings per common share

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

	13-week periods ended		26-week periods ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
Net earnings attributable to shareholders of the Corporation and used to determine basic and diluted net earnings per common share	\$193,479	\$146,228	\$338,981	\$259,802
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	290,482	304,779	291,602	307,090
Assumed share options exercised (<i>thousands</i>)	1,691	1,463	1,727	1,443
Weighted average number of common shares for diluted net earnings per common share (<i>thousands</i>)	292,173	306,242	293,329	308,533
Diluted net earnings per common share	\$0.66	\$0.48	\$1.16	\$0.84

As at July 31, 2022, 252,435 options have an anti-dilutive effect since the average market price of the underlying shares was lower than the sum of the exercise price and the unearned shared-based compensation of those share options under the treasury stock method (August 1, 2021 – 458,250).

11 Related party transactions

a) Rossy family

As at July 31, 2022, the outstanding balance of lease liabilities owed to entities controlled by the Rossy family totalled \$29,470 (January 30, 2022 – \$34,730).

Rental expenses charged by entities controlled by the Rossy family but not included in lease liabilities totalled \$1,528 and \$3,609 for the 13-week and 26-week periods ended July 31, 2022, respectively (13-week and 26-week periods ended August 1, 2021 – \$1,523 and \$3,285, respectively).

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

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11 Related party transactions (cont'd)

b) Dollarcity

In 2013, Dollarama International, the Corporation's wholly-owned subsidiary, entered into a licensing and services agreement with Dollarcity (the "LSA"), which expired on February 4, 2022. Upon expiry of the LSA, Dollarama International entered into a new sourcing agreement and a new services agreement with Dollarcity, each having an initial term of five years, subject to automatic renewal for successive one-year periods, unless terminated by either party at least 60 days before the close of the then-current term.

As at July 31, 2022, the account receivable from Dollarcity for the goods sold and services provided under the new commercial agreements totalled \$29,339 (January 30, 2022 – \$15,965 under the LSA), which amount is partly guaranteed by a letter of credit up to US\$10,000 (\$12,795) (January 30, 2022 – US\$10,000 (\$12,770)). For the 13-week and 26-week periods ended July 31, 2022, the sales to Dollarcity amounted to \$11,212 and \$20,363, respectively (13-week and 26-week periods ended August 1, 2021 – \$9,320 and \$17,513, respectively), which represent approximately 1% of the Corporation's total consolidated sales.

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

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

	13-week periods ended		26-week periods ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
	\$	\$	\$	\$
Cost of sales				
Cost of goods sold, labour, transport and other costs	651,786	547,067	1,234,537	1,060,114
Occupancy costs	35,242	35,621	73,483	73,380
Total cost of sales	687,028	582,688	1,308,020	1,133,494
Depreciation and amortization				
Depreciation of property, plant and equipment and right-of-use assets ⁽¹⁾	76,434	68,154	150,920	134,635
Amortization of intangible assets	5,545	5,031	11,031	9,952
Total depreciation and amortization	81,979	73,185	161,951	144,587
Employee benefits	129,819	122,699	251,348	247,593

⁽¹⁾ Includes depreciation expenses relating to the warehouses and distribution center totalling \$3,085 and \$6,147 for the 13-week and 26-week periods ended July 31, 2022 respectively (August 1, 2021 – \$3,012 and \$5,974, respectively).

Dollarama Inc.

Notes to Condensed Interim Consolidated Financial Statements

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

13 Details of statement of cash flows

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

	13-week periods ended		26-week periods ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
	\$	\$	\$	\$
Accounts receivable	(2,202)	(885)	(8,366)	(2,035)
Prepaid expenses	1,205	(3,123)	1,132	(4,728)
Prepaid income taxes	-	15,372	-	(1,418)
Inventories	(176,718)	43,074	(232,504)	44,353
Accounts payable and accrued liabilities	33,898	(5,054)	42,094	(31,536)
Income taxes payable	(9,168)	-	(36,439)	(12,975)
	<u>(152,985)</u>	<u>49,384</u>	<u>(234,083)</u>	<u>(8,339)</u>
Cash paid for income taxes	76,789	32,140	158,700	101,609
Cash paid for interest	34,175	29,949	49,600	45,070
Cash received for interest	907	818	1,914	2,107

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

14 Event after the reporting period

Quarterly cash dividend

On September 9, 2022, the Corporation announced that its Board of Directors had approved a quarterly cash dividend for holders of common shares of \$0.0553 per common share. This dividend is payable on November 4, 2022, to shareholders of record at the close of business on October 7, 2022. The dividend is designated as an "eligible dividend" for Canadian tax purposes.