



THE NORTH WEST COMPANY INC.

2012 THIRD QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the third quarter ended October 31, 2012. Sales decreased 0.2% to \$377.7 million compared to the third quarter last year as food sales growth was offset by a decrease in general merchandise sales. Sales excluding the foreign exchange impact were up 0.3% but were down 0.4%¹ on a same store basis.

Third quarter net earnings were \$17.5 million, an increase of 2.9% compared to last year's third quarter net earnings of \$17.0 million. Diluted earnings per share were \$0.36 compared to \$0.35 per share last year.

The Board of Directors has approved a quarterly dividend of \$0.26 per share to shareholders of record on December 31, 2012.

On behalf of the Board of Directors:

H. Sanford Riley
Chairman

Edward S. Kennedy
President and Chief Executive Officer

Management's Discussion & Analysis

The following Management's Discussion & Analysis should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the period ended October 31, 2012 and the audited annual consolidated financial statements and accompanying notes included in the 2011 Annual Financial Report.

CONSOLIDATED RESULTS

Quarter

Third quarter consolidated sales decreased 0.2% to \$377.7 million compared to \$378.4 million in 2011 as food sales growth was offset by a decrease in general merchandise sales. Excluding the foreign exchange impact, sales increased 0.3% but were down 0.4%¹ on a same store basis. Food sales¹ increased 1.4% and were up 1.0% on a same store basis and general merchandise sales¹ decreased 5.0% and were down 5.8% on a same store basis.

The table below shows the third quarter sales blend for the past two years:

| | 2012 | 2011 |
|---------------------|-------|-------|
| Food | 78.0% | 77.2% |
| General merchandise | 18.5% | 19.5% |
| Other* | 3.5% | 3.3% |

* Other sales include gas, fur and service charge revenues

¹ Excluding the foreign exchange impact

Earnings from Operations² increased 3.6% to \$26.4 million compared to \$25.4 million in the third quarter last year as gross profit rate improvements more than offset higher selling, operating and administrative expenses. Continued improvement in fresh categories profitability, product assortment changes and special buys were the leading factors contributing to the gross profit rate improvement. Selling, operating and administrative expenses increased 3.0% compared to last year and were up 70 basis points as a percentage to sales largely due to a \$1.7 million increase in share-based compensation costs and a \$1.3 million asset impairment provision related to the pending closure of six Giant Tiger stores as noted below under Canadian Operations. The increase in share-based compensation costs is mainly related to an increase in share price in the quarter compared to last year. Additional information on share-based compensation is provided in Note 13 to the 2012 third quarter unaudited interim condensed consolidated financial statements. Excluding the asset impairment provision, earnings from operations increased 8.9% compared to last year.

Trading profit² or earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 3.7% to \$35.7 million compared to \$34.5 million last year. Excluding the asset impairment provision, trading profit increased \$2.6 million or 7.6% and was 9.8% as a percentage to sales compared to 9.1% last year.

Income tax expense increased 3.5% to \$7.3 million compared to \$7.0 million in the third quarter last year due to higher earnings. The consolidated effective tax rate in the quarter was 29.3% compared to 29.2% last year.

Net earnings increased 2.9% to \$17.5 million and diluted earnings per share increased to \$0.36 compared to \$0.35 per share last year due to earnings growth. Excluding the impact of the asset impairment provision, earnings per share was \$0.38 in the quarter.

As a result of a decrease in long-term interest rates, a re-measurement of the defined benefit pension plan assets and liabilities was performed at October 31, 2012. The Company recorded an increase in defined benefit plan obligations of \$6.9 million (October 31, 2011 – \$18.4 million), an increase in deferred tax assets of \$1.8 million (October 31, 2011 – \$4.9 million), and net actuarial losses of \$5.1 million (October 31, 2011 – \$13.5 million) as a charge to other comprehensive income. The charge to other comprehensive income was immediately recognized in retained earnings at October 31, 2012. Further information on employee future benefits is provided in Note 14 to the 2012 third quarter unaudited interim condensed consolidated financial statements. The Company continues to monitor the impact of market conditions on its defined benefit pension plan obligations.

Year-to-Date

Year-to-date sales increased 2.7% to \$1.127 billion compared to \$1.098 billion in 2011. Sales growth was positively impacted by the foreign exchange on the conversion of U.S. denominated sales and one extra day of sales as a result of February 29. The average exchange rate used to convert U.S. denominated sales and expenses from the International Operations was 1.8% higher at 0.999 compared to 0.981 last year. Excluding the foreign exchange impact, sales increased 2.1% and were up 1.1%¹ on a same store basis. Food sales¹ increased 2.2% and were up 1.7% on a same store basis. General merchandise sales¹ increased 0.1% but were down 1.5% on a same store basis.

The table below shows the year-to-date sales blend for the past two years:

| | 2012 | 2011 |
|---------------------|--------------|-------|
| Food | 77.8% | 77.6% |
| General merchandise | 18.5% | 18.9% |
| Other* | 3.7% | 3.5% |

* Other sales include gas, fur and service charge revenues

² See Non-GAAP Measures Section of Management's Discussion & Analysis

Earnings from Operations increased 8.9% to \$74.3 million compared to \$68.2 million last year as sales growth and gross profit rate improvements offset higher selling, operating and administrative expenses. Selling, operating and administrative expenses increased 4.6% compared to last year and were up 41 basis points as a percentage to sales. The increase in selling, operating and administrative expenses is due in part to higher share-based compensation costs mainly related to an increase in share price compared to last year and the asset impairment provision. Higher insurance expense, pension costs in Canada and utility and employee medical insurance costs in the International Operations also contributed to the increase in expenses. Excluding the foreign exchange impact and the asset impairment provision, earnings from operations increased \$7.1 million or 10.4% compared to last year.

Trading profit² increased 7.3% to \$102.2 million compared to \$95.3 million last year. Excluding the foreign exchange impact and the asset impairment provision, trading profit increased \$7.9 million or 8.2% and was 9.2% as a percentage to sales compared to 8.7% last year.

Income taxes increased to \$20.2 million compared to \$19.4 million last year as a result of earnings growth partially offset by lower income tax rates. The consolidated effective tax rate decreased to 29.1% compared to 30.4% last year largely due to lower income tax rates in Canada.

Net earnings increased 10.9% to \$49.3 million and diluted earnings per share increased to \$1.02 compared to \$0.92 per share last year.

CANADIAN OPERATIONS

Canadian sales for the quarter increased 0.2% to \$258.4 million from \$257.7 million last year but were down 0.4% on a same store basis. Food sales increased 1.3% and were up 1.1% on a same store basis, building on the 4.9% same store food sales increase in the third quarter last year. Food sales in northern markets increased over the strong sales growth in the third quarter last year and more than offset weaker sales performance in less remote stores. Food inflation resulting from higher commodity costs net of Nutrition North Canada freight subsidies was under 1% in the quarter. General merchandise sales decreased 4.4% from last year and were down 5.4% on a same store basis due largely to lower furniture, electronics and transportation sales in northern markets and weak back-to-school sales in less remote stores.

Gross profit dollars increased 4.1% due primarily to gross profit rate improvement resulting from special buys, more focused product assortments, improved perishable department profitability from better execution in the north and reduced pricing pressure in southern markets. Selling, operating and administrative expenses increased 4.5% and increased 94 basis points as a percentage to sales. This increase is largely due to higher stock-based compensation costs mainly related to an increase in the share price in the quarter and an asset impairment provision related to store closures.

The Company has reached an agreement to assign the leases for six underperforming Giant Tiger stores which will be closed in the fourth quarter and has recorded an asset impairment provision of \$1.3 million in the quarter. Further information on the asset impairment provision is provided in Note 7 to the 2012 third quarter unaudited interim condensed consolidated financial statements.

As result of the store closures, the Company will fall below the minimum number of stores required to maintain the exclusive right to open Giant Tiger stores in western Canada. The loss of exclusivity does not constitute an event of default under the Company's master franchise rights and will not prevent the Company from continuing to operate its existing stores. Overall, the Company considers its GT store group to be well-positioned as a junior discount format in western Canada with opportunities for further performance improvement. In 2013, this will include investing in store layout and design refreshes and plans to open at least one new store in the second half of the year.

Canadian trading profit increased 3.4% to \$27.4 million compared to \$26.5 million last year. Excluding the asset impairment charge, trading profit increased 8.5% and was 11.1% to sales compared to 10.3% of sales in the third quarter last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales increased 0.5% to \$121.0 million compared to \$120.5 million in the third quarter last year but were down 0.5% on a same store basis as sales growth in our Cost-U-Less stores and wholesale business was more than offset by a decrease in general merchandise sales in our Alaska (“AC”) stores. Food sales increased 1.6% and were up 0.6% on a same store basis. General merchandise sales decreased 7.3% and were down 7.5% on a same store basis due to lower discretionary spending in our AC markets resulting from a decrease in the Permanent Fund Dividend (“PFD”). The PFD paid to qualifying Alaska residents decreased 25.2% to \$878 compared to \$1,174 last year which negatively impacted sales in big-ticket categories such as home furnishings, electronics and transportation.

Gross profit dollars were up 2.4% largely due to gross profit rate improvement. Improved perishable department profitability and product assortment reviews were the leading factors contributing to the gross profit rate improvement. Selling, operating and administrative expenses increased 1.3% and were up 17 basis points as a percent to sales due in part to higher staff costs, employee medical insurance and utility costs.

Trading profit increased 5.9% to \$8.5 million compared to \$8.0 million last year and as a percent to sales was 7.0% compared to 6.6% in the third quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Company’s debt-to-equity ratio at the end of the quarter was 0.65:1 compared to 0.72:1 last year. The debt-to-equity ratio at January 31, 2012 was 0.62:1.

Working capital increased 87.1% or \$83.9 million compared to the third quarter last year largely due to the decrease in the current portion of long-term debt. The decrease in the current portion of long-term debt is due to the Canadian Operations loan facilities refinanced on December 5, 2011. Excluding the impact of the maturing loan facilities, working capital decreased \$5.5 million or 2.9% compared to last year largely due to an increase in accounts payable related to the timing of payments.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,387,000 shares compared to 48,378,000 shares last year. The increase in basic shares outstanding is due to share options exercised during the quarter. Further information on the share option plan is provided in Note 5 and Note 13 to the 2012 third quarter unaudited interim condensed consolidated financial statements. The weighted-average fully diluted shares outstanding for the quarter were 48,577,000 compared to 48,509,000 shares last year. The increase in the fully diluted shares outstanding compared to last year is due to options granted under the Share Option Plan and shares granted under the Director Deferred Share Unit Plan.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

| \$ in thousands | Three Months October 31, 2012 | Three Months October 31, 2011 | Change | Nine Months October 31, 2012 | Nine Months October 31, 2011 | Change |
|----------------------|--|----------------------------------|-----------|---|---------------------------------|-----------|
| Cash flows from | | | | | | |
| (used in): | | | | | | |
| Operating Activities | \$ 28,991 | \$ 10,660 | \$ 18,331 | \$ 77,623 | \$ 62,589 | \$ 15,034 |
| Investing Activities | (13,919) | (9,837) | (4,082) | (34,421) | (28,837) | (5,584) |
| Financing Activities | (15,951) | (3,522) | (12,429) | (29,231) | (31,002) | 1,771 |
| Net change in cash | \$ (879) | \$ (2,699) | \$ 1,820 | \$ 13,971 | \$ 2,750 | \$ 11,221 |

Cash flow from operating activities in the quarter increased \$18.3 million to \$29.0 million from \$10.7 million last year. The increase is largely due to the change in non-cash working capital related to the change in inventory and accounts payable in the quarter compared to the prior year. For the year-to-date, cash flow from operating activities increased \$15.0 million or 24.0% to \$77.6 million compared to last year largely due to the change in non-cash working capital partially offset by an increase in income tax payments. Following the conversion to a share corporation on January 1, 2011 and the deferral of the payment of Canadian income taxes in the 2011 transition year in accordance with income tax legislation enacted November 21, 2011, the Company has begun paying income tax instalments in 2012.

Cash used for investing activities in the quarter increased to \$13.9 million compared to \$9.8 million last year due to a difference in the timing of capital investments. For the year-to-date, net capital expenditures increased 19.4% to \$34.4 million reflecting the Company's planned increase in expenditures. Net capital expenditures for 2012 are projected to be approximately \$60 million (2011 – \$45.1 million). Further information on planned capital expenditures is included in the Outlook section on page 7.

Cash used in financing activities in the quarter was \$16.0 million compared to \$3.5 million last year. The change in long-term debt in the quarter is largely due to the change in the amounts drawn on the Company's Canadian revolving loan facilities compared to last year.

On a year-to-date basis, cash used in financing activities was \$29.2 million compared to \$31.0 million last year mainly related to a change in the amounts drawn on the loan facilities and the repayment of a US\$3.9 million note payable in the prior year. Further information on long-term debt is provided in Note 9 to the 2012 third quarter unaudited interim condensed consolidated financial statements.

For the year-to-date, the Company paid dividends of \$37.7 million compared to \$39.2 million last year. The prior year payment included dividends of \$34.8 million and the final special distribution from The North West Company Fund ("Fund") of \$4.4 million which was paid by the Company subsequent to the conversion of the Fund to a share corporation on January 1, 2011.

Sources of Liquidity

On October 25, 2012, the Company completed the previously announced refinancing of its US\$20 million loan facility in the International Operations. The new, increased, committed, revolving loan facility provides the Company with a US\$30 million revolving loan facility for working capital requirements and general business purposes. This facility, which matures October 31, 2015, is secured by certain accounts receivable and inventories of the International Operations and bears a floating interest rate based on LIBOR plus a spread. At October 31, 2012, the Company had drawn US\$4.4 million on these facilities (October 31, 2011 – US\$1.2 million).

The International Operations also have available committed, revolving loan facilities of US\$52.0 million that mature on December 31, 2013. These facilities are secured by a floating charge against the assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the \$170.0 million loan facilities. At October 31, 2012, the Company had drawn US\$44.0 million on these facilities (October 31, 2011 – US\$44.0 million).

The Canadian Operations have available committed, extendible, revolving loan facilities of \$170.0 million that mature on December 31, 2015. These facilities are secured by a floating charge on the assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities. At October 31, 2012, the Company had drawn \$69.1 million on these facilities (October 31, 2011 – \$88.2 million).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At October 31, 2012, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, pension plan contributions, sustaining and planned growth-related capital expenditures as well as anticipated dividends during 2012.

SHAREHOLDER DIVIDENDS

The Board of Directors of the Company declared a quarterly dividend of \$0.26 per share to shareholders of record on December 31, 2012, payable on January 15, 2013.

The payment of dividends on the Company's common shares are subject to the approval of the Board of Directors and is based on, among other factors, the financial performance of the Company, its current and anticipated future business needs and the satisfaction of solvency tests imposed by the Canada Business Corporations Act ("CBCA") for the declaration of dividends. The dividends are designated as eligible dividends in accordance with the provisions of the Canadian Income Tax Act.

QUARTERLY HIGHLIGHTS

The Company opened new, expanded stores in Oxford House, Manitoba on October 29, 2012 and Emmonak, Alaska on November 17, 2012.

OUTLOOK

Economic conditions affecting discretionary spending in the Company's northern Canada and Alaska markets depend on public infrastructure investment and resource development and extraction activity. These three factors are expected to remain flat to negative through 2013 and will affect the sales growth in big-ticket general merchandise. In the southern island economies consumer spending is stable with modest growth driven from opening price points and new items. Giant Tiger performance improvement is expected to continue but will face increasing discount competition from new market entrants in the second quarter of 2013.

Food gross profit improvement driven from our “More Growth In Store” initiatives has met expectations and is expected to be an income growth driver in the fourth quarter and this should offset anticipated higher share-based compensation costs, insurance costs, and utility and employee medical insurance expenses in International Operations.

Net capital expenditures for 2012 are projected to be approximately \$60 million (2011 – \$45.1 million) reflecting the opening and acquisition of new stores, major replacement store projects, energy conservation projects, staff housing renovations, corporate information systems upgrades and the implementation of a transportation management system. The investments in staff housing and the transportation management system, which are the result of our “More Growth In Store” focus, account for approximately \$11 million of the projected capital expenditures. The remaining increase in projected capital spending in 2012 compared to prior years is due to a larger than usual number of northern store replacement projects caused by fire losses over the past 18 months and agreements being reached with First Nation communities. Actual year-to-year expenditures depend upon the completion of negotiations and shipment of construction materials to remote markets and therefore, the actual amount and timing of expenditures can fluctuate as it has over the past few years. In 2013, capital spending is expected to return to an average of \$40 million to \$50 million per year.

Following the conversion to a share corporation on January 1, 2011 and the deferral of the payment of Canadian income taxes in the 2011 transition year in accordance with income tax legislation enacted November 21, 2011, the Company began paying income tax instalments in 2012. The Company will pay the remaining balance of the accrued income taxes for 2012 and a portion of the deferred income tax from the transition year in the first quarter of 2013. The Company expects its income tax instalments to increase in 2013 based on a normalized level of taxable income in 2012 and the recognition of a portion of the deferred taxable income from the transition year.

QUARTERLY RESULTS OF OPERATIONS

In 2012, the first quarter had 90 days of operations compared to 89 days of operations in 2011 as a result of February 29. The following is a summary of selected quarterly financial information which is prepared in accordance with IFRS.

Operating Results – Consolidated

| (\$ in millions) | Third Quarter | | Second Quarter | | First Quarter | | Fourth Quarter | |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 92 days 2012 | 92 days 2011 | 92 days 2012 | 92 days 2011 | 90 days 2012 | 89 days 2011 | 92 days 2011 | 92 days 2010 |
| Sales | \$377.7 | \$378.4 | \$383.8 | \$372.9 | \$365.5 | \$346.3 | \$397.6 | \$374.5 |
| Trading profit | 35.7 | 34.5 | 36.6 | 32.4 | 29.9 | 28.4 | 30.6 | 31.0 |
| Net earnings | 17.5 | 17.0 | 18.3 | 15.0 | 13.6 | 12.4 | 13.5 | 9.2 |
| Net earnings per share: | | | | | | | | |
| Basic | 0.36 | 0.35 | 0.38 | 0.31 | 0.28 | 0.26 | 0.28 | 0.19 |
| Diluted | 0.36 | 0.35 | 0.38 | 0.31 | 0.28 | 0.26 | 0.27 | 0.19 |

Historically, the Company’s first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the holiday selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that all material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance of achieving the control objectives. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. There have been no changes in the internal controls over financial reporting during the quarter ended October 31, 2012 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

ACCOUNTING STANDARDS IMPLEMENTED IN 2012

The Company adopted the amendments to IFRS listed below effective February 1, 2012, as required by the International Accounting Standards Board (IASB). These amendments had no material impact on the Company's results from operations or financial condition.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments help financial statement users evaluate financial risks that may be associated with these transfers. The Company's capital management activities do not involve the transfer of financial assets.

Income Taxes The IASB issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not have any investment property measured at fair value.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2013, and have not been applied in preparing the consolidated financial statements. The following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013.

Employee Benefits The revised IAS 19, *Employee Benefits* issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amends the calculation of plan assets and benefit obligations, streamlines the presentation of changes in defined benefit plans and requires enhanced disclosure. The requirement to calculate the expected return on assets with the interest rate used to calculate the defined benefit plan obligation is the most significant for the Company. The Company will adopt this standard for its fiscal year beginning February 1, 2013. The implementation of this standard in the Company's 2013 financial statements will require the restatement of the 2012 comparative numbers with an estimated decrease in net earnings of approximately \$1.4 million comprised of an increase to interest expense of \$1.2 million, an increase to selling, operating and administrative expenses of \$0.7 million and a deferred tax recovery of \$0.5 million.

In addition to IAS 19, the Company will implement the following standards and amendments effective February 1, 2013: IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*; IFRS 12, *Disclosure of Interests In Other Entities*; IAS 12, *Income Taxes*; IAS 1, *Presentation of Financial Statements*; IFRS 13, *Fair Value Measurement*; IAS 32, *Financial Instruments*. The Company is currently assessing the impact of these standards however, it does not expect the impact to be significant.

NON-GAAP MEASURES

(1) Trading Profit (EBITDA) is not a recognized measure under IFRS. Management believes that in addition to net earnings, trading profit is a useful supplemental measure as it provides investors with an indication of the Company's operational performance before allocating the cost of interest, income taxes and capital investments. Investors should be cautioned however, that trading profit should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating trading profit may differ from other companies and may not be comparable to measures used by other companies.

A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

| (\$ in thousands) | Third Quarter | | Year-to-Date | |
|-------------------|------------------|------------------|-------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings | \$ 17,487 | \$ 17,000 | \$ 49,317 | \$ 44,460 |
| Add: Amortization | 9,383 | 9,028 | 27,907 | 27,030 |
| Interest expense | 1,626 | 1,440 | 4,733 | 4,411 |
| Income taxes | 7,252 | 7,008 | 20,247 | 19,370 |
| Trading profit | <u>\$ 35,748</u> | <u>\$ 34,476</u> | <u>\$ 102,204</u> | <u>\$ 95,271</u> |

For trading profit information by business segment, see Note 4, Segmented Information, in the Notes to the unaudited interim condensed consolidated financial statements.

(2) Earnings From Operations/Earnings Before Interest and Income Taxes (EBIT) is not a recognized measure under IFRS. Management believes that in addition to net earnings, EBIT is a useful supplemental measure as it provides investors with an indication of the performance of the consolidated operations and/or business segments, prior to interest expense and income taxes. Investors should be cautioned however, that EBIT should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBIT may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to EBIT is provided below:

| (\$ in thousands) | Third Quarter | | Year-to-Date | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings | \$ 17,487 | \$ 17,000 | \$ 49,317 | \$ 44,460 |
| Add: Interest expense | 1,626 | 1,440 | 4,733 | 4,411 |
| Income taxes | 7,252 | 7,008 | 20,247 | 19,370 |
| Earnings from operations | <u>\$ 26,365</u> | <u>\$ 25,448</u> | <u>\$ 74,297</u> | <u>\$ 68,241</u> |

For earnings from operations information by business segment, see Note 4, Segmented Information, in the Notes to the unaudited interim condensed consolidated financial statements.

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim condensed consolidated financial statements and notes to the unaudited interim condensed consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to December 14, 2012.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the 2011 Annual Financial Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

Additional information on the Company, including our Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.northwest.ca.

CONSOLIDATED BALANCE SHEETS

| (unaudited, \$ in thousands) | October 31 2012 | October 31 2011 | January 31 2012 |
|--|--------------------|--------------------|--------------------|
| CURRENT ASSETS | | | |
| Cash | \$ 40,955 | \$ 33,981 | \$ 26,984 |
| Accounts receivable | 69,915 | 69,897 | 76,539 |
| Inventories (Note 6) | 201,944 | 202,063 | 186,124 |
| Prepaid expenses | 7,455 | 7,271 | 6,189 |
| | 320,269 | 313,212 | 295,836 |
| NON-CURRENT ASSETS | | | |
| Property and equipment | 268,224 | 261,641 | 270,370 |
| Goodwill | 26,173 | 26,013 | 26,319 |
| Intangible assets | 19,062 | 14,828 | 14,620 |
| Deferred tax assets | 13,072 | 22,164 | 7,422 |
| Other assets | 16,041 | 12,914 | 12,350 |
| | 342,572 | 337,560 | 331,081 |
| TOTAL ASSETS | \$ 662,841 | \$ 650,772 | \$ 626,917 |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 124,274 | \$ 111,411 | \$ 122,349 |
| Current portion of long-term debt (Note 9) | 541 | 89,960 | 629 |
| Income tax payable (Note 12) | 15,345 | 15,583 | 5,024 |
| | 140,160 | 216,954 | 128,002 |
| NON-CURRENT LIABILITIES | | | |
| Long-term debt (Note 9) | 187,227 | 113,198 | 175,263 |
| Provisions | 4,159 | 3,938 | 4,016 |
| Defined benefit plan obligation (Note 14) | 31,945 | 25,568 | 27,616 |
| Deferred tax liabilities | 2,495 | 2,888 | 2,440 |
| Other long-term liabilities | 6,423 | 5,064 | 5,871 |
| | 232,249 | 150,656 | 215,206 |
| TOTAL LIABILITIES | 372,409 | 367,610 | 343,208 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital (Note 5) | 165,358 | 165,133 | 165,133 |
| Contributed surplus | 3,407 | 3,144 | 3,180 |
| Retained earnings | 122,490 | 115,836 | 115,991 |
| Accumulated other comprehensive income | (823) | (951) | (595) |
| TOTAL EQUITY | 290,432 | 283,162 | 283,709 |
| TOTAL LIABILITIES & EQUITY | \$ 662,841 | \$ 650,772 | \$ 626,917 |

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS

| (unaudited, \$ in thousands, except per share amounts) | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|--|--|---|---|--|
| SALES | \$ 377,664 | \$ 378,359 | \$ 1,127,024 | \$ 1,097,566 |
| Cost of sales | (265,486) | (269,614) | (796,992) | (784,797) |
| Gross profit | 112,178 | 108,745 | 330,032 | 312,769 |
| Selling, operating and administrative expenses (Note 10) | (85,813) | (83,297) | (255,735) | (244,528) |
| Earnings from operations | 26,365 | 25,448 | 74,297 | 68,241 |
| Interest expense (Note 11) | (1,626) | (1,440) | (4,733) | (4,411) |
| Earnings before income taxes | 24,739 | 24,008 | 69,564 | 63,830 |
| Provision for income taxes (Note 12) | (7,252) | (7,008) | (20,247) | (19,370) |
| NET EARNINGS FOR THE PERIOD | \$ 17,487 | \$ 17,000 | \$ 49,317 | \$ 44,460 |
| NET EARNINGS PER SHARE | | | | |
| Basic | \$ 0.36 | \$ 0.35 | \$ 1.02 | \$ 0.92 |
| Diluted | \$ 0.36 | \$ 0.35 | \$ 1.02 | \$ 0.92 |
| Weighted-Average Number of Shares Outstanding (000's) | | | | |
| Basic | 48,387 | 48,378 | 48,382 | 48,378 |
| Diluted | 48,577 | 48,509 | 48,566 | 48,521 |

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (unaudited, \$ in thousands) | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|---|---|---|--|--|
| NET EARNINGS FOR THE PERIOD | \$ 17,487 | \$ 17,000 | \$ 49,317 | \$ 44,460 |
| Other comprehensive income/(expense): | | | | |
| Exchange differences on translation of foreign controlled subsidiaries, net of tax | 11 | 1,438 | (228) | (63) |
| Actuarial losses on defined benefit plans, net of tax (Note 14) | (5,079) | (13,531) | (5,079) | (13,531) |
| Total other comprehensive income, net of tax | (5,068) | (12,093) | (5,307) | (13,594) |
| COMPREHENSIVE INCOME FOR THE PERIOD | \$ 12,419 | \$ 4,907 | \$ 44,010 | \$ 30,866 |

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (unaudited, \$ in thousands) | Share Capital | Contributed Surplus | Retained Earnings | AOCI ⁽¹⁾ | Total |
|---|-------------------|------------------------|----------------------|---------------------|-------------------|
| Balance at January 31, 2012 | \$ 165,133 | \$ 3,180 | \$ 115,991 | \$ (595) | \$ 283,709 |
| Net earnings for the period | - | - | 49,317 | - | 49,317 |
| Other comprehensive income (Note 14) | - | - | (5,079) | (228) | (5,307) |
| Comprehensive income for the period | - | - | 44,238 | (228) | 44,010 |
| Equity settled share-based payments (Note 13) | - | 393 | - | - | 393 |
| Dividends (Note 8) | - | - | (37,739) | - | (37,739) |
| Issuance of common shares | 225 | (166) | - | - | 59 |
| | 225 | 227 | (37,739) | - | (37,287) |
| Balance at October 31, 2012 | \$ 165,358 | \$ 3,407 | \$ 122,490 | \$ (823) | \$ 290,432 |
| Balance at January 31, 2011 | \$ 165,133 | \$ 2,491 | \$ 119,739 | \$ (888) | \$ 286,475 |
| Net earnings for the period | - | - | 44,460 | - | 44,460 |
| Other comprehensive income (Note 14) | - | - | (13,531) | (63) | (13,594) |
| Comprehensive income for the period | - | - | 30,929 | (63) | 30,866 |
| Equity settled share-based payments (Note 13) | - | 653 | - | - | 653 |
| Dividends (Note 8) | - | - | (34,832) | - | (34,832) |
| | - | 653 | (34,832) | - | (34,179) |
| Balance at October 31, 2011 | \$ 165,133 | \$ 3,144 | \$ 115,836 | \$ (951) | \$ 283,162 |

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (unaudited, \$ in thousands) | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|--|---|---|--|--|
| CASH PROVIDED BY (USED IN) | | | | |
| Operating activities | | | | |
| Net earnings for the period | \$ 17,487 | \$ 17,000 | \$ 49,317 | \$ 44,460 |
| Adjustments for: | | | | |
| Amortization | 9,383 | 9,028 | 27,907 | 27,030 |
| Provision for income taxes (Note 12) | 7,252 | 7,008 | 20,247 | 19,370 |
| Interest expense (Note 11) | 1,626 | 1,440 | 4,733 | 4,411 |
| Equity settled share option expense (Note 13) | 127 | 285 | 393 | 653 |
| Taxes paid | (3,608) | (2,195) | (12,559) | (4,610) |
| Loss on disposal of property and equipment | (146) | (10) | 34 | 463 |
| Asset impairment (Note 7) | 2,142 | - | 2,142 | - |
| | 34,263 | 32,556 | 92,214 | 91,777 |
| Change in non-cash working capital | (3,959) | (18,950) | (10,534) | (26,380) |
| Change in other non-cash items | (1,313) | (2,946) | (4,057) | (2,808) |
| Cash from operating activities | 28,991 | 10,660 | 77,623 | 62,589 |
| Investing activities | | | | |
| Purchase of property and equipment | (12,194) | (9,861) | (28,423) | (28,982) |
| Intangible asset additions | (1,925) | (34) | (6,447) | (255) |
| Proceeds from disposal of property and equipment | 200 | 58 | 449 | 400 |
| Cash from investing activities | (13,919) | (9,837) | (34,421) | (28,837) |
| Financing activities | | | | |
| Increase / (decrease) in long-term debt | (2,684) | 8,799 | 12,203 | 15,300 |
| Repayments of long-term debt | - | - | - | (3,676) |
| Dividends / distributions (Note 8) | (12,581) | (11,611) | (37,739) | (39,186) |
| Interest paid | (686) | (710) | (3,754) | (3,440) |
| Issuance of common shares | - | - | 59 | - |
| Cash from financing activities | (15,951) | (3,522) | (29,231) | (31,002) |
| NET CHANGE IN CASH | (879) | (2,699) | 13,971 | 2,750 |
| Cash, beginning of period | 41,834 | 36,680 | 26,984 | 31,231 |
| CASH, END OF PERIOD | \$ 40,955 | \$ 33,981 | \$ 40,955 | \$ 33,981 |

See accompanying notes to condensed consolidated financial statements

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2012 AND 2011

1. ORGANIZATION

The North West Company Inc. (NWC or the Company) is a corporation amalgamated under the Canada Business Corporations Act (CBCA) and governed by the laws of Canada. The Company, through its subsidiaries, is a leading retailer of food and everyday products and services. The address of its registered office is 77 Main Street, Winnipeg, Manitoba.

The Company has two reportable geographical segments, Canada and International. The International segment consists of wholly owned subsidiaries operating in the continental United States, Caribbean and South Pacific. The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns.

These unaudited interim period condensed consolidated financial statements ("condensed consolidated financial statements") have been approved for issue by the Board of Directors of the Company on December 14, 2012.

2. BASIS OF PREPARATION

(A) **Statement of Compliance** These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB).

These condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2011 Annual Financial Report which have been prepared in accordance with International Financial Reporting Standards (IFRS).

(B) **Basis of Measurement** The condensed consolidated financial statements have been prepared on a historical cost basis, except for the following which are measured at fair value:

- Derivative financial instruments
- Financial instruments designated at fair value
- Share-based payment plans
- Defined benefit pension plan

(C) **Functional and Presentation Currency** The presentation currency of the condensed consolidated financial statements is Canadian dollars, which is the Company's functional currency. All financial information is presented in Canadian dollars, unless otherwise stated, and has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, the significant accounting policies are set out in the Company's 2011 audited annual consolidated financial statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2012 AND 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Standards Implemented in Current Year The Company adopted the amendments to IFRS listed below effective February 1, 2012, as required by the IASB. These amendments had no material impact on the Company's results from operations or financial condition.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments help financial statement users evaluate financial risks that may be associated with these transfers. The Company's capital management activities do not involve the transfer of financial assets.

Income Taxes The IASB issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not have any investment property measured at fair value.

Future Standards and Amendments A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2013, and have not been applied in preparing these consolidated financial statements. The following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013.

Employee Benefits The revised IAS 19, *Employee Benefits* issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amends the calculation of plan assets and benefit obligations, streamlines the presentation of changes in defined benefit plans and requires enhanced disclosure. The requirement to calculate the expected return on assets with the interest rate used to calculate the defined benefit plan obligation is the most significant for the Company. The Company will adopt this standard for its fiscal year beginning February 1, 2013. The implementation of this standard in the Company's 2013 financial statements will require the restatement of the 2012 comparative numbers with an estimated decrease in net earnings of approximately \$1,400 comprised of an increase to interest expense of \$1,200, an increase to selling, operating and administrative expenses of \$700 and a deferred tax recovery of \$500.

In addition to IAS 19, the Company will implement the following standards and amendments effective February 1, 2013: IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*; IFRS 12, *Disclosure of Interests In Other Entities*; IAS 12, *Income Taxes*; IAS 1, *Presentation of Financial Statements*; IFRS 13, *Fair Value Measurement*; IAS 32, *Financial Instruments*. The Company is currently assessing the impact of these standards however, it does not expect the impact to be significant.

Use of Estimates The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements and notes.

These estimates and assumptions are based on management's historical experience, best knowledge of current events, conditions and actions that the Company may undertake in the future and other factors that management believes are reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Certain of these estimates require subjective or complex judgments by management about matters that are uncertain and changes in these estimates could materially impact the condensed consolidated financial statements and notes. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have the most significant effect on the amounts recognized in the condensed consolidated financial statements include impairment of assets, goodwill and indefinite life intangible asset impairment, income taxes, and defined benefit plan obligations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2012 AND 2011

4. SEGMENTED INFORMATION

The Company is a retailer of food and everyday products and services in two geographical segments, Canada and International. The International segment consists of wholly owned subsidiaries operating in the continental United States, Caribbean and South Pacific. The financial information for these business segments are regularly reviewed by the Company's President and Chief Executive Officer to assess performance and make decisions about the allocation of resources.

The following key information is presented by geographic segment:

Consolidated Statement of Earnings:

| | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|--|---|---|--|--|
| Sales | | | | |
| Canada | \$ 258,346 | \$ 257,712 | \$ 773,179 | \$ 753,046 |
| International | 119,318 | 120,647 | 353,845 | 344,520 |
| Consolidated | \$ 377,664 | \$ 378,359 | \$ 1,127,024 | \$ 1,097,566 |
| Earnings before amortization, interest and income taxes | | | | |
| Canada | \$ 27,390 | \$ 26,485 | \$ 79,290 | \$ 73,429 |
| International | 8,358 | 7,991 | 22,914 | 21,842 |
| Consolidated | \$ 35,748 | \$ 34,476 | \$ 102,204 | \$ 95,271 |
| Earnings from operations | | | | |
| Canada | \$ 19,981 | \$ 19,411 | \$ 57,367 | \$ 52,125 |
| International | 6,384 | 6,037 | 16,930 | 16,116 |
| Consolidated | \$ 26,365 | \$ 25,448 | \$ 74,297 | \$ 68,241 |

Supplemental Information:

| | October 31, 2012 | October 31, 2011 | January 31, 2012 |
|------------------------------|------------------|------------------|------------------|
| Assets | | | |
| Canada | \$ 457,795 | \$ 466,414 | \$ 443,956 |
| International ⁽¹⁾ | 205,046 | 184,358 | 182,961 |
| Consolidated | \$ 662,841 | \$ 650,772 | \$ 626,917 |

(1) International total assets includes goodwill of \$26,173 (October 31, 2011 - \$26,013; January 31, 2012 - \$26,319)

| | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|--|---|---|--|--|
| Expenditure on property and equipment | | | | |
| Canada | \$ 6,882 | \$ 7,790 | \$ 17,377 | \$ 23,614 |
| International | 5,312 | 2,071 | 11,046 | 5,368 |
| Consolidated | \$ 12,194 | \$ 9,861 | \$ 28,423 | \$ 28,982 |
| Amortization | | | | |
| Canada | \$ 7,409 | \$ 7,074 | \$ 21,923 | \$ 21,304 |
| International | 1,974 | 1,954 | 5,984 | 5,726 |
| Consolidated | \$ 9,383 | \$ 9,028 | \$ 27,907 | \$ 27,030 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
OCTOBER 31, 2012 AND 2011

5. SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

| | Shares | Consideration |
|-------------------------------------|-------------------|-------------------|
| Balance at January 31, 2012 | 48,378,000 | \$ 165,133 |
| Issued under option plans (Note 13) | 10,721 | 225 |
| Balance at October 31, 2012 | 48,388,721 | \$ 165,358 |
| Balance at October 31, 2011 | 48,378,000 | \$ 165,133 |

6. INVENTORIES

Included in inventories recognized as an expense for the three months ended October 31, 2012, the Company recorded \$479 (three months ended October 31, 2011 - \$439) for the write-down of inventories as a result of net realizable value being lower than cost. For the nine months ended October 31, 2012, the Company recorded \$1,310 (nine months ended October 31, 2011 - \$1,432) for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the nine months ended October 31, 2012 or 2011.

7. ASSET IMPAIRMENT

The Company has entered into an agreement to assign the leases for six stores which will be closed on December 22, 2012. For the three months ended October 31, 2012 the Company recognized a net asset impairment loss of \$1,338 on these assets comprised of an asset impairment loss of \$2,142 less unamortized lease inducements of \$804. The impairment loss was recognized in selling, operating and administrative expenses.

8. DIVIDENDS

| | October 31, 2012 | October 31, 2011 |
|---|------------------|------------------|
| Dividends recorded in retained earnings | \$ 37,739 | \$ 34,832 |
| Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010 | – | 4,354 |
| Dividends/distributions paid in cash | \$ 37,739 | \$ 39,186 |
| Dividends/distributions per share | \$ 0.78 | \$ 0.81 |

The payment of dividends on the Company’s common shares is subject to the approval of the Board of Directors and is based upon, among other factors, the financial performance of the Company, its current and anticipated future business needs, and the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends. Dividends are recognized as a liability in the condensed consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

On January 1, 2011, the North West Company Fund (the “Fund”) was reorganized by way of a plan of arrangement under section 192 of the CBCA into a corporation named The North West Company Inc. The Fund’s obligation to pay the special distribution of \$0.09 per unit or \$4,354 was assumed by The North West Company Inc. as part of the reorganization. The declaration of distributions from the Fund was subject to the terms of the Fund’s Declaration of Trust and the discretion of the Board of Trustees.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
OCTOBER 31, 2012 AND 2011

9. LONG-TERM DEBT

| | October 31, 2012 | October 31, 2011 | January 31, 2012 |
|--|-------------------|-------------------|-------------------|
| Current | | | |
| Revolving loan facilities ⁽¹⁾ | \$ – | \$ 1,153 | \$ – |
| Revolving loan facilities ⁽²⁾ | – | 88,160 | – |
| Notes payable ⁽³⁾ | 233 | 265 | 268 |
| Finance lease liabilities | 308 | 382 | 361 |
| | \$ 541 | \$ 89,960 | \$ 629 |
| Non-current | | | |
| Revolving loan facilities ⁽¹⁾ | \$ 4,418 | \$ – | \$ – |
| Revolving loan facilities ⁽²⁾ | 69,079 | – | 68,850 |
| Notes payable ⁽³⁾ | 222 | 452 | 391 |
| Senior notes ⁽⁴⁾ | 69,430 | 68,742 | 69,626 |
| Revolving loan facilities ⁽⁵⁾ | 43,982 | 43,714 | 36,187 |
| Finance lease liabilities | 96 | 290 | 209 |
| | 187,227 | 113,198 | 175,263 |
| Total | \$ 187,768 | \$ 203,158 | \$ 175,892 |

(1) In October 2012, the Company completed the refinancing of the committed, revolving loan facility of US\$20,000 that matured on October 31, 2012. The new committed, revolving loan facility provides the Company with a US\$30,000 revolving loan facility for working capital requirements and general business purposes. This facility, which matures October 31, 2015, bears a floating rate of interest based on LIBOR plus a spread and is secured by a charge against certain accounts receivable and inventories of the International Operations. At October 31, 2012, the Company had drawn US\$4,420 (October 31, 2011 – US\$1,161; January 31, 2012 – US\$NIL) on these facilities.

(2) In December 2011, the Company completed the refinancing of the Canadian Operations extendible, committed, revolving loan facilities of \$140,000 that matured on December 31, 2011. The new committed, extendible, revolving loan facilities provide the Company with a \$170,000 revolving loan facility for working capital requirements and general business purposes. These facilities, which mature on December 31, 2015, are secured by a floating charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the US\$52,000 loan facilities in International Operations. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(3) Notes payable in the amount of US\$455 bear interest at a rate of U.S. prime plus 1% and have annual principal payments of US\$233.

(4) The US\$70,000 senior notes mature on June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The notes are secured by a floating charge against the assets of the Company and rank *pari passu* with the \$170,000 Canadian Operations loan facilities and the US\$52,000 loan facilities in International Operations. The Company has entered into interest rate swaps resulting in floating interest costs on US\$28,000 of its senior notes (October 31, 2011 – US\$28,000; January 31, 2012 – US\$28,000). The interest rate swaps mature June 15, 2014.

(5) The US\$52,000 committed, revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$170,000 Canadian Operations loan facilities. At October 31, 2012, the Company had drawn US\$44,000 (October 31, 2011 – US\$44,000; January 31, 2012 – US\$36,000) on this facility.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
OCTOBER 31, 2012 AND 2011

10. EMPLOYEE COSTS

| | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|--|---|---|--|--|
| Wages, salaries and benefits including bonus | \$ 50,396 | \$ 48,522 | \$ 151,714 | \$ 146,159 |
| Retirement benefit expense | \$ 1,240 | \$ 1,131 | \$ 4,058 | \$ 3,399 |
| Share-based compensation (Note 13) | \$ 2,598 | \$ 893 | \$ 6,768 | \$ 3,438 |

11. INTEREST EXPENSE

| | Three Months Ended October 31, 2012 | Three Months Ended October 31, 2011 | Nine Months Ended October 31, 2012 | Nine Months Ended October 31, 2011 |
|---|---|---|--|--|
| Interest on borrowings | \$ 1,903 | \$ 1,632 | \$ 5,282 | \$ 4,722 |
| Fair value movement of financial instruments in effective fair value hedging relationships | 6 | (26) | 25 | (19) |
| Expected return on pension plan assets | (935) | (960) | (2,805) | (2,880) |
| Interest on pension plan liabilities | 953 | 955 | 2,859 | 2,865 |
| Other interest income | (135) | (72) | (275) | (188) |
| Less: interest capitalized | (166) | (89) | (353) | (89) |
| Interest expense | \$ 1,626 | \$ 1,440 | \$ 4,733 | \$ 4,411 |

12. INCOME TAXES

An estimated weighted-average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the respective interim period pre-tax income of each jurisdiction. The estimated effective income tax rate for the nine months ended October 31, 2012 was 29.1% (October 31, 2011 – 30.4%). The decrease primarily reflects the impact of reductions in the Canadian substantively enacted statutory income tax rates as at October 31, 2012.

13. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Restricted Share Units; Performance Share Units; Share Options; Director Deferred Share Units; and an Employee Share Purchase Plan. The Company discontinued its Unit Purchase Loan Plan effective January 31, 2011. The purpose of these plans is to directly align the interests of the participants and the shareholders of the Company by providing compensation that is dependent on the performance of the Company's common shares.

The total expense relating to share-based payment plans for the three months ended October 31, 2012 was \$2,598 (three months ended October 31, 2011 - \$893) and for the nine months ended October 31, 2012 was \$6,768 (nine months ended October 31, 2011 - \$3,438). The carrying amount of the Company's share-based compensation arrangements including RSU, PSU, share option and DSU plans are recorded on the consolidated balance sheets as follows:

| | October 31, 2012 | October 31, 2011 | January 31, 2012 |
|--|------------------|------------------|------------------|
| Accounts payable and accrued liabilities | \$ 6,919 | \$ 4,185 | \$ 4,611 |
| Other long-term liabilities | 4,547 | 2,474 | 3,207 |
| Contributed surplus | 1,838 | 1,570 | 1,611 |
| Total | \$ 13,304 | \$ 8,229 | \$ 9,429 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2012 AND 2011

13. SHARE-BASED COMPENSATION (continued)

Performance Share Units and Restricted Share Units

The Company has granted Performance Share Units (PSU's) and Restricted Share Units (RSU's) to officers and senior management.

Each PSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period, based on factors related to the achievement of specific performance based criteria. The PSU account for each participant includes the value of dividends from the Company as if reinvested in additional PSU's. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period factoring in the probability of the performance criteria being met during that period.

Each RSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period. This plan was discontinued in July 2011. All outstanding grants are scheduled to vest no later than January 31, 2014. The RSU account for each participant includes the value of dividends from the Company as if reinvested in additional RSU's. RSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period.

Compensation expense related to the RSU's and PSU's for the three months ended October 31, 2012 is \$1,709 (three months ended October 31, 2011 - \$578) and for the nine months ended October 31, 2012 is \$4,255 (nine months ended October 31, 2011 - \$2,155).

Share Option Plan

The Company has a Share Option Plan that provides for the granting of options to certain officers and senior management. Options are granted at fair market value based on the volume weighted-average closing price of the Company's shares for the five trading days preceding the grant date. Effective June 14, 2011, the Share Option Plan was amended and restated. The amendments afford the Board of Directors the discretion to award options giving the holder the choice, upon exercise, to either deduct a portion of all dividends declared after the grant date from the option's exercise price or to exercise the option at the strike price specified at the grant date. Each option is exercisable into one share of the Company at the price specified in the terms of the option, or the employee may elect to acquire shares or receive a cash payment based on the excess of the fair market value of the Company's shares over the exercise price. The fair value of the share-based compensation is recognized in net earnings over the vesting period.

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9% of the Company's issued and outstanding shares at October 31, 2012. Fair value of these options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation expense recorded for the three months ended October 31, 2012 is \$443 (three months ended October 31, 2011 - \$285) and for the nine months ended October 31, 2012 is \$1,062 (nine months ended October 31, 2011 - \$653).

The following continuity schedule reconciles the movement in outstanding options during the nine month period ended October 31:

| | Declining Strike Price Options | | Standard Options | |
|--|--------------------------------|---------|------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Outstanding options, beginning of period | 315,812 | - | 548,486 | 509,200 |
| Granted | 328,677 | 315,812 | 63,177 | 56,186 |
| Exercised | - | - | (26,430) | - |
| Forfeited or cancelled | (53,950) | - | (16,534) | (16,900) |
| Outstanding options, end of period | 590,539 | 315,812 | 568,699 | 548,486 |
| Exercisable at end of period | - | - | 59,165 | - |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
OCTOBER 31, 2012 AND 2011

13. SHARE-BASED COMPENSATION (continued)

The following continuity schedule discloses weighted-average exercise price for issued and outstanding options during the nine month period ended October 31:

| | Declining Strike Price Options | | Standard Options | |
|--|--------------------------------|----------|------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Outstanding options, beginning of period | \$ 20.34 | \$ – | \$ 17.45 | \$ 17.10 |
| Granted | 21.86 | 20.62 | 21.86 | 20.62 |
| Exercised | – | – | 15.25 | – |
| Forfeited or cancelled | 21.11 | – | 17.30 | 16.92 |
| Outstanding options, end of period | \$ 21.12 | \$ 20.34 | \$ 18.06 | \$ 17.45 |
| Exercisable at end of period | \$ – | \$ – | \$ 15.25 | \$ – |

Options outstanding at October 31, 2012 have an exercise price in the range of \$15.25 to \$21.86 and a weighted-average remaining contractual life of 6.5 years. The fair values for all options granted during the nine month period ended October 31 were calculated based on the following assumptions:

| | 2012 | 2011 |
|---------------------------------|-------------------|-----------------|
| Fair value of options granted | \$ 3.35 to \$4.62 | \$ 3.61 to 4.74 |
| Exercise price | \$ 21.86 | \$ 20.62 |
| Dividend yield | 4.7% | 4.5% |
| Annual risk-free interest rate | 1.7% | 2.7% |
| Expected share price volatility | 28.0% | 29.2% |

The assumptions used to measure options at the balance sheet dates were as follows:

| | 2012 | 2011 |
|---------------------------------|-------|-------|
| Dividend yield | 4.4% | 4.5% |
| Annual risk-free interest rate | 1.3% | 2.7% |
| Expected share price volatility | 25.2% | 29.2% |

The expected dividend yield is estimated based on the quarterly dividend rate and the closing share price on the date the options are measured. The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options. The risk-free interest rate is estimated based on the Government of Canada bond yield for a term to maturity equal to the expected life of the options.

Director Deferred Share Unit Plan

The Director Deferred Share Unit Plan (DSU) is available for independent Directors. Participants are credited with deferred share units based on the portion of fees each participant elects to allocate to the DSU. Each deferred share unit entitles the holder to receive a share of the Company. The deferred share units are exercisable by the holder at any time but no later than December 31 of the first calendar year commencing after the holder ceases to be a Director. A participant may elect at the time of exercise of any deferred share units, subject to the consent of the Company, to have the Company pay an amount in cash equal to the aggregate current market value of the shares, determined based on the closing price of the shares on the TSX on the trading day preceding the exercise date, in consideration for the surrender by the participant to the Company the right to receive shares from exercising the deferred share units.

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the three months ended October 31, 2012 is an expense of \$334 (three months ended October 31, 2011 – recovery of \$71) and for the nine months ended October 31, 2012 is an expense of \$912 (nine months ended October 31, 2011 - expense of \$138). The total number of deferred share units outstanding at October 31, 2012 is 132,738 (October 31, 2011 – 114,149). There were 4,698 deferred share units exercised during the three months ended October 31, 2012 (three months ended October 31, 2011 – NIL) and 4,698 deferred share units exercised during the nine months ended October 31, 2012 (nine months ended October 31, 2011 – 37,236). The deferred share units exercised were settled in cash. The liability for the deferred share unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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13. SHARE-BASED COMPENSATION (continued)

Employee Share Purchase Plan

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation expense recorded for the three months ended October 31, 2012 is \$112 (three months ended October 31, 2011 – \$101) and for the nine months ended October 31, 2012 is \$539 (nine months ended October 31, 2011 - \$492).

14. EMPLOYEE FUTURE BENEFITS

As a result of a decrease in long-term interest rates, a re-measurement of the defined benefit plan assets and liabilities was performed as at October 31, 2012 and 2011. The defined benefit plan obligation increased \$6,936 (October 31, 2011 – \$18,442) as a result of an actuarial loss of \$7,810 (October 31, 2011 – \$14,228) on plan liabilities and an actuarial gain of \$874 on plan assets (October 31, 2011 – loss on plan assets of \$4,214). Deferred income tax assets increased by \$1,857 (October 31, 2011 – \$4,911). The Company also recorded actuarial losses of \$5,079 (October 31, 2011 – \$13,531) net of deferred income taxes as a charge to other comprehensive income, which was recognized immediately in retained earnings.

The discount rate used to determine the benefit obligation for the defined benefit pension plan at October 31, 2012 was 4.0% (October 31, 2011 – 4.75%).

The benefit obligations and plan assets for the Company's pension and other post-retirement plans were as follows:

| | October 31, 2012 | October 31, 2011 | January 31, 2012 |
|--|------------------|------------------|------------------|
| Present value of defined benefit obligations | \$ (94,677) | \$ (81,849) | \$ (85,509) |
| Fair value of plan assets | 62,732 | 56,281 | 57,893 |
| Defined benefit plan obligation, funded status | (31,945) | (25,568) | (27,616) |

15. SEASONALITY

The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns. As a result, a disproportionate amount of total revenues and earnings are typically earned in the fourth quarter. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories. Net earnings are historically lower in the first quarter due to lower sales and fixed costs such as rent and overhead that apply uniformly throughout the year.

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16. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The Company's principal subsidiaries are set out below:

| | Activity | Country of Organization | Proportion of voting rights held by: | |
|--|-----------------|-------------------------|--------------------------------------|------------|
| | | | Company | Subsidiary |
| NWC GP Inc. | General Partner | Canada | 100% | |
| North West Company Holdings Inc. | Holding Company | Canada | 100% | |
| The North West Company LP | Retailing | Canada | 100% (less one share) | |
| NWC (U.S.) Holdings Inc. | Holding Company | United States | | 100% |
| The North West Company (International) Inc. | Retailing | United States | | 100% |
| The North West Finance Company Cooperatie U.A. | Finance Company | Netherlands | | 100% |

The Company's investment in jointly controlled entities comprises a 50% interest in a Canadian Arctic shipping company, Transport Nanuk Inc.

17. SUBSEQUENT EVENTS

On December 14, 2012 the Board of Directors declared a dividend of \$0.26 per common share payable January 15, 2013 to shareholders of record on December 31, 2012.

18. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.