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# THE NORTH WEST COMPANY INC.

*Report to Shareholders*

*Quarterly Period Ended October 31, 2016*



## 2016 THIRD QUARTER REPORT TO SHAREHOLDERS

### Report to Shareholders

The North West Company Inc. reports its results for the third quarter ended October 31, 2016. Sales increased 1.3% to \$464.0 million compared to the third quarter last year led by sales growth in Canadian Operations. Consolidated sales, excluding the impact of foreign exchange, increased 1.7% and were up 1.5%<sup>1</sup> on a same store basis.

Third quarter net earnings increased 34.3% to \$27.9 million and diluted earnings per share were \$0.57 per share compared to \$0.43 per share last year led by earnings growth in Canadian Operations.

The Board of Directors has approved a quarterly dividend of \$0.31 per share to shareholders of record on December 30, 2016.

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 2016 third quarter unaudited interim period condensed consolidated financial statements for the period ended October 31, 2016 and the audited annual consolidated financial statements and accompanying notes included in the 2015 Annual Report.

### CONSOLIDATED RESULTS

#### Quarter

Third quarter consolidated sales increased 1.3% to \$464.0 million as sales gains in Canadian Operations more than offset lower sales in International Operations. Excluding the foreign exchange impact, consolidated sales increased 1.7% and were up 1.5%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 2.1% and were up 1.7% on a same store basis with all store banners contributing to the sales growth. New store sales growth in Canada was also a factor. General merchandise sales<sup>1</sup> increased 1.2% and were up 0.6% on a same store basis as sales growth in Canadian Operations more than offset lower sales in International Operations.

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

	2016	2015
Food	<b>80.6%</b>	80.2%
General merchandise	<b>16.6%</b>	16.8%
Other*	<b>2.8%</b>	3.0%

\* Other sales includes fuel, fur and financial service charge revenues

(1) Excluding foreign exchange impact

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

Earnings from operations increased 22.1% to \$39.1 million compared to \$32.0 million last year. Gross profit dollars were up 1.7% driven by sales growth and a 13 basis point increase in the gross profit rate compared to last year. Selling, operating and administrative expenses decreased 4.6% and were down 131 basis points as a percentage to sales. This decrease was largely due to a recovery of previously expensed share-based compensation costs resulting from a decrease in share price in the quarter and lower incentive plan expenses. These factors were partially offset by higher store-based payroll costs in northern Canadian markets and the impact of new stores. Further information on share-based compensation expense is provided in Note 9 and Note 12 to the 2016 third quarter unaudited interim period condensed consolidated financial statements. Excluding the impact of foreign exchange, earnings from operations increased 24.2% to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA)<sup>2</sup> increased \$8.1 million or 18.7% to \$51.1 million due to EBITDA growth in Canadian Operations. Excluding the foreign exchange impact, EBITDA was up 20.4% compared to last year and as a percentage to sales was 11.3% compared to 9.5% last year.

Income tax expense decreased \$0.4 million to \$9.4 million and the consolidated effective tax rate was 25.2% compared to 31.9% last year. The decrease in the effective tax rate is due to the impact of a recovery of non-deductible share-based compensation costs in Canadian Operations and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net earnings increased 34.3% to \$27.9 million and diluted earnings per share were \$0.57 per share compared to \$0.43 per share last year due to lower share-based compensation costs in Canadian Operations and modest earnings growth in International Operations.

Comprehensive income increased to \$31.7 million compared to \$21.0 million last year primarily due to an increase in net earnings and the impact of foreign exchange on the translation of International Operations financial statements. The change in foreign exchange rates resulted in a gain of \$3.8 million compared to a gain of \$0.3 million last year.

## **Year-to-Date**

Year-to-date sales increased 3.2% to \$1.364 billion compared to \$1.321 billion in 2015 led by food sales growth and the impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, sales increased 2.2% and were up 1.4%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 2.7% and were up 1.9% on a same store basis led by food sales growth in both Canadian and International Operations. General merchandise sales<sup>1</sup> increased 0.9% but were down 0.5% on a same store basis largely due to lower sales in Alaskan markets.

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

	<b>2016</b>	<b>2015</b>
Food	<b>80.6%</b>	80.1%
General merchandise	<b>16.4%</b>	16.8%
Other*	<b>3.0%</b>	3.1%

\* Other sales includes fuel, fur and financial service revenues

Earnings from operations increased 9.3% to \$91.6 million compared to \$83.9 million last year. Gross profit dollars increased 3.8% due to sales growth, the impact of foreign exchange and a 17 basis point increase in the gross profit rate. The increase in gross profit rate is largely due to product sales blend changes. Selling, operating and administrative expenses increased 2.3% but were down 20 basis points as a percentage to sales. The increase in expenses is largely due to higher store-based staff costs, an increase in amortization costs mainly related to capital investments in Top Markets, new stores in Canadian Operations, and the impact of foreign exchange on the translation of International Operations expenses. These factors were partially offset by lower share-based compensation costs and short-term incentive plan expenses. Excluding the impact of foreign exchange, earnings from operations increased 7.9% compared to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA)<sup>2</sup> increased 9.8% to \$127.6 million compared to \$116.3 million last year. Excluding the impact of foreign exchange, EBITDA increased 8.5% compared to last year and as a percentage to sales was 9.5% compared to 8.9% last year.

(1) Excluding foreign exchange impact

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

Interest expense increased \$1.0 million to \$5.4 million due to an increase in long-term debt largely related to capital investments in Top Markets and marginally higher interest rates. Further information on long-term debt and interest expense is provided in Note 8 and Note 10 respectively to the 2016 third quarter unaudited interim period condensed consolidated financial statements.

Income tax expense decreased \$0.7 million to \$24.1 million and the consolidated effective tax rate was 28.0% compared to 31.3% last year. The decrease in the effective tax rate is largely due to the impact of a recovery of non-deductible share-based compensation costs in Canadian Operations.

Net earnings increased 13.8% to \$62.1 million compared to \$54.6 million last year and diluted earnings per share were \$1.27 per share compared to \$1.12 per share last year led by higher net earnings in Canadian Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, net earnings increased 12.3% compared to last year.

Comprehensive income decreased to \$47.3 million compared to \$57.7 million last year primarily due to the remeasurement of the Company's defined benefit pension plan's assets and liabilities and the impact of foreign exchange on the translation of International Operations financial statements. As a result of a decrease in long-term interest rates and lower investment returns on plan assets, the Company recorded a \$9.3 million net actuarial loss on its defined benefit plan obligation in other comprehensive income. Further information on employee future benefits is provided in Note 17 to the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements. The foreign exchange differences on the translation of International Operations financial statements resulted in a loss of \$5.5 million compared to a gain of \$3.1 million last year due to changes in the foreign exchange rates compared to the prior year. These factors were partially offset by higher net earnings compared to last year.

## **CANADIAN OPERATIONS**

Canadian Operations sales increased 3.3% to \$281.1 million compared to \$272.1 million last year driven by same store sales growth of 2.6% and the impact of new stores. Food sales increased 3.3% and were up 2.1% on a same store basis with all banners contributing to the increase. Food inflation was approximately 0.8% in the quarter. General merchandise sales increased 5.3% from last year and were up 4.5% on a same store basis led by sales growth in Giant Tiger stores.

Gross profit dollars increased 3.8% driven by sales growth and a modest increase in the gross profit rate. The improvement in the gross profit rate is largely related to food sales growth in higher margin food service and perishable categories, partially offset by competitive pressure in non-perishable categories and higher markdowns in seasonal general merchandise categories in less remote markets. Selling, operating and administrative expenses decreased 6.1% compared to last year and were down 219 basis points as a percentage to sales. The decrease in expenses was due to a recovery of previously expensed share-based compensation costs due to a decrease in share price in the quarter and lower incentive plan costs. These factors were partially offset by higher store-based payroll costs related to an investment in new roles to support our Top Categories initiative and higher amortization costs related to capital investments in our Top Markets. Further information on share-based compensation costs is provided in Note 9 and Note 12 to the 2016 third quarter unaudited interim period condensed consolidated financial statements.

Canadian EBITDA<sup>(2)</sup> increased 29.8% to \$35.1 million compared to \$27.1 million last year largely due to the factors noted above. EBITDA as a percentage to sales was 12.5% compared to 9.9% last year.

## **INTERNATIONAL OPERATIONS (stated in U.S. dollars)**

International Operations sales decreased 1.3% to \$139.4 million compared to \$141.3 million in the third quarter last year and were down 0.6% on a same store basis. Sales in our Alaska markets were negatively impacted by a 50% reduction in the Permanent Fund Dividend ("PFD") paid to its qualifying residents which decreased to \$1,022, compared to \$2,072 last year. Food sales increased 0.2% and were up 1.0% on a same store basis as sales growth in Alaska ("AC") and Cost-U-Less ("CUL") stores were partially offset by lower sales in our Alaska wholesale business. General merchandise sales decreased 11.0% and were down 11.2% on a same store basis as increases in CUL sales were more than offset by lower sales in Alaska stores primarily due to the decrease in the PFD.

(1) Excluding foreign exchange impact

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

Gross profit dollars decreased 1.4% compared to last year largely due to lower sales. Selling, operating and administrative expenses decreased 1.4% and were flat to last year as a percentage to sales largely due to lower short-term incentive plan costs and fuel-related utility costs.

EBITDA<sup>(2)</sup> decreased 0.4% to \$12.2 million compared to \$12.3 million last year and as a percentage to sales was 8.8% compared to 8.7% in the third quarter last year as the reduction in selling, operating and administrative expenses largely offset the impact of lower gross profit.

## **FINANCIAL CONDITION**

### **Financial Ratios**

The Company's debt-to-equity ratio at the end of the third quarter was 0.72:1 compared to 0.64:1 last year. The debt-to-equity ratio at January 31, 2016 was 0.63:1.

Working capital increased \$18.0 million or 9.3% compared to the third quarter last year primarily due to increases in cash due to timing and higher inventory in Canadian Operations, partly offset by higher trade accounts payable. The increase in inventory is largely related to a higher investment in inventory in stores serviced by sealift to take advantage of lower freight costs and new stores.

### **Outstanding Shares**

The weighted-average basic shares outstanding for the quarter were 48,523,000 shares compared to 48,516,000 shares last year. The increase in basic shares outstanding is due to share options exercised. The weighted-average fully diluted shares outstanding for the quarter were 49,058,000 shares compared to 48,802,000 shares last year. The increase in 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. Further information on the Share Option Plan and the Director Deferred Share Unit Plan is provided in Note 6 and Note 12 to the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

The following table summarizes the major components of cash flow:

\$ in thousands	Three Months Ended		Three Months Ended		Nine Months Ended		Nine Months Ended	
	October 31, 2016	October 31, 2015		Change	October 31, 2016	October 31, 2015		Change
<b>Cash flows provided by (used in):</b>								
Operating activities	\$ 24,752	\$ 41,045	\$ (16,293)		\$ 74,527	\$ 81,072	\$ (6,545)	
Investing activities	(20,577)	(22,546)	1,969		(53,852)	(44,854)	(8,998)	
Financing activities	(211)	(24,620)	24,409		(9,913)	(31,672)	21,759	
Effect of foreign exchange on cash	518	23	495		(420)	232	(652)	
Net change in cash	\$ 4,482	\$ (6,098)	\$ 10,580		\$ 10,342	\$ 4,778	\$ 5,564	

(1) Excluding foreign exchange impact

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

Cash flow from operating activities in the quarter decreased \$16.3 million to \$24.8 million compared to cash flow from operating activities of \$41.0 million last year. The decrease is due to the change in non-cash working capital largely related to a higher investment in inventory in stores serviced by sealift and new stores in Canadian Operations and a change in trade payables and accrued expenses primarily related to reductions in short-term incentive plan costs. The change in other non-cash items is due to a decrease in accrued share-based compensation costs in the quarter. For the year-to-date, cash flow from operating activities decreased \$6.5 million or 8.1% to \$74.5 million largely due to the change in non-cash working capital and other non-cash items as previously noted. This was partially offset by higher net earnings and an increase in amortization expense due in part to capital investments as part of the Company's Top Markets initiative.

Cash used for investing activities in the quarter decreased to \$20.6 million compared to \$22.5 million last year due to the timing of expenditures. On a year-to-date basis, investing activities increased by \$9.0 million to \$53.9 million largely due to capital expenditures related to the Company's Top Markets initiative and investments in a new POS and merchandise management system described in the Strategy section. Further information on planned capital expenditures is included in the Outlook section.

Cash used in financing activities in the quarter was \$0.2 million compared to \$24.6 million last year. For the year-to-date, cash used in financing activities was \$9.9 million compared to \$31.7 million last year. The net change in long-term debt in the quarter and for the year is related to changes in amounts drawn on the Company's revolving loan facilities compared to last year. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 8 to the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements.

## Sources of Liquidity

In March 2016, the Company completed the refinancing of the \$200.0 million loan facilities in the Canadian Operations maturing December 31, 2018. The new increased, committed, revolving loan facilities provide up to \$300.0 million for working capital and general business purposes. The facilities mature on April 29, 2021, are secured by certain assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities in the International Operations. At October 31, 2016, the Company had drawn \$165.4 million on these facilities (October 31, 2015 - \$108.1 million).

The Canadian Operations also have US\$70.0 million senior notes that mature on June 16, 2021. The senior notes have a fixed interest rate of 3.27% on US\$55.0 million and a floating interest rate on US\$15.0 million based on U.S. LIBOR plus a spread payable semi-annually. The senior notes are secured by certain assets of the Company and rank *pari passu* with the \$300.0 million Canadian Operations loan facilities and the US\$52.0 million loan facilities in the International Operations.

In March 2016, the Company completed the refinancing of the US\$52.0 million loan facilities in the International Operations maturing December 31, 2018. The new committed, revolving loan facilities of US\$52.0 million mature April 29, 2021 and bear interest at U.S. LIBOR plus a spread. These facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the \$300.0 million Canadian Operations loan facilities. At October 31, 2016, the Company had not drawn on these facilities (October 31, 2015 - US\$10.0 million).

The International Operations also have a US\$40.0 million committed, revolving loan facility for working capital and general business purposes. This loan facility, which matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At October 31, 2016, the Company had not drawn on these facilities (October 31, 2015 - US\$5.0 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, 2016, the Company is in compliance with the financial covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants. Further information on the Company's long-term debt and loan facilities is provided in Note 8 to the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements.

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, planned sustaining and growth-related capital expenditures as well as anticipated dividends during 2016.

## **SHAREHOLDER DIVIDENDS**

The Board of Directors declared a quarterly dividend of \$0.31 per share to shareholders of record on December 30, 2016, to be paid on January 16, 2017.

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.

## **OTHER HIGHLIGHTS**

- A Giant Tiger store was opened in Wetaskiwin, Alberta on October 8, 2016, increasing the number of Giant Tiger stores to 36.
- A Giant Tiger "New Store Experience" renovation was completed in Brandon, Manitoba.
- A temporary store was opened in Shamattawa, Manitoba four days after our leased facility in this community was destroyed by fire.
- On October 1, 2016 the Nutrition North Canada subsidy program was expanded affecting 21 of the communities served by the Company in Manitoba, Saskatchewan and Alberta.

## **STRATEGY**

The Company is building a stronger store network with better product and service solutions that in turn, help our customers live better and help our business to grow consistently in all economic environments. From an investor standpoint, the Company is committed to delivering sustainable, superior total returns with a commitment to downside risk management, disciplined allocation of capital, cash flow optimization and dividend growth.

The Company's focus areas for the next three years are set out below:

1. Managing investment in the Company's "Top Markets", our largest and highest sales and profit potential locations, so that sustaining capital is better balanced with new products and services growth. This is expected to result in consolidated capital spending in the \$55 million range, excluding growth-related investments in new stores and acquisitions, with some offset from working capital efficiencies.
2. More selling space dedicated to "Top Categories" which offer the highest everyday convenience and service value to our customers and which can be delivered in a superior way by the Company.
3. Ensuring that the way we work is customer driven and store-centric through more responsive and effective support to the Company's selling activities.
4. In 2016, the Company initiated a project to implement new work force management, point-of-sale and merchandise management systems. This project is expected to be completed within approximately 30 months and is expected to deliver gains in pricing, more effective promotions, inventory management and store productivity, all aligned with the Company's "Top" strategies.
5. Selectively investing in new market and complimentary business growth through acquisitions and new store openings.

Further information on the Company's strategy is provided in the 2015 Annual Report.

## OUTLOOK

As noted under the strategy section, the Company's principal focus continues to be led by its Top Markets and Top Categories initiatives. The successful execution of this work is expected to enable North West to capture market share and sales at a higher rate than general consumer income growth, while focusing on lower-risk products and services.

The short-term consumer income outlook remains challenging and aligns with the Company's lower risk product and service focus, augmented by opportunistic investments. Economic conditions in Alaska are expected to be difficult, depending on oil prices and the extent to which state spending cuts spill into rural Alaska. Northern Canada is seeing more monthly income from the new Child Care Benefit payments and will gain further as infrastructure spending picks up in 2017. The western Canada retail environment is important for our GT business and we expect to continue to face low food inflation and more food price competition within this region combined with modest growth in competitive selling space. Our Cost U Less market prospects vary significantly from island to island and overall are expected to be comparable to 2016.

The Company has completed its final due diligence on the previously announced acquisition of Roadtown Wholesale Trading Ltd. ("RTT"), operating primarily as Riteway Food Markets in the British Virgin Islands ("BVI"). The closing of this transaction is subject to receiving BVI government approval of the acquisition, finalization of purchase agreements, and other customary closing conditions.

Net capital expenditures for 2016, exclusive of the potential RTT acquisition, are expected to be approximately \$85.0 million (2015 - \$75.8 million), reflecting major store replacements, store renovations and investments in fixtures, equipment, staff housing and store-based warehouse expansions as part of the Company's Top Markets initiative, the opening of three Giant Tiger stores as well as the completion of "New Store Experience" upgrades in five stores. In addition to these investments, the Company is also implementing new information systems as described under the strategy section. Store-based capital expenditures can be impacted by the completion of landlord negotiations, shipment of construction materials to remote markets, and weather-related delays and therefore, their actual amount and timing can fluctuate.

## QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected quarterly financial information:

### Operating Results - Consolidated

(\$ in millions)	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	92 days		92 days		90 days		92 days	
	2016	2015	2016	2015	2016	2015	2015	2014
<b>Sales</b>	\$ 464.0	\$ 458.0	\$ 460.6	\$ 448.7	\$ 439.0	\$ 414.0	\$ 475.2	\$ 433.5
<b>EBITDA<sup>(1)</sup></b>	51.1	43.1	38.9	38.8	37.6	34.4	35.1	33.4
<b>Earnings from operations</b>	39.1	32.0	27.0	28.2	25.6	23.7	23.4	23.2
<b>Net earnings</b>	27.9	20.7	16.4	18.1	17.8	15.7	15.2	15.0
<b>Net earnings per share:</b>								
<b>Basic</b>	0.57	0.43	0.34	0.38	0.37	0.32	0.31	0.31
<b>Diluted</b>	0.57	0.43	0.34	0.37	0.36	0.32	0.31	0.31

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the holiday selling period. Due to the remote location of many of the Company's stores, weather conditions are often more extreme compared to other retailers and can affect sales in any quarter. Net earnings generally follow higher sales but can be dependent on changes in merchandise sales blend, promotional activity in key sales periods, markdowns to reduce excess inventories and other factors which can affect net earnings.

## **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 reports 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. Management used the Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission as the control framework in designing its internal controls over financial reporting. There have been no changes in the internal controls over financial reporting during the quarter ended October 31, 2016 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## **ACCOUNTING STANDARDS IMPLEMENTED IN 2016**

The Company implemented the amendments to IAS 1, *Presentation of Financial Statements* in 2016 with no significant impact on the Company's unaudited interim period condensed consolidated financial statements. These amendments provide guidance on the application of judgment in the preparation of financial statements and disclosure.

## **FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED**

The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2017, and have not been applied in preparing the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements. The Company is currently assessing the potential impacts of changes to these standards.

**Financial Instruments** The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset by both cash flow characteristics and how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. Additional guidance was also issued on the classification and measurement of financial assets and liabilities, hedge accounting and a single forward-looking expected loss impairment model. It is effective for the Company's financial year ending January 31, 2019, will be applied retrospectively and is available for early adoption.

**Revenue Recognition** In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The IFRS 15 standard contains a comprehensive model which specifies the criteria and timing for recognizing revenue, and also requires additional disclosures in the notes to the financial statements. The core principle of the standard is that revenue is recognized at an amount that reflects the consideration to which the Company is entitled. It is effective for the Company's financial year ending January 31, 2019, will be applied retrospectively and is available for early adoption.

**Leases** In January 2016, the IASB issued IFRS 16, *Leases* which replaces the current guidance in IAS 17 for operating and finance lease accounting. This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. These changes are effective for the Company's financial year ending January 31, 2020, with early adoption permitted provided IFRS 15, *Revenue from Contracts with Customers* is also applied.

## NON-GAAP MEASURES

(1) **Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA)** is not a recognized measure under IFRS. Management believes that in addition to net earnings, EBITDA 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 EBITDA 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 EBITDA may differ from other companies and may not be comparable to measures used by other companies.

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

(\$ in thousands)	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
Net earnings	\$ 27,865	\$ 20,749	\$ 62,082	\$ 54,573
Add: Amortization	12,058	11,062	35,988	32,386
Interest expense	1,852	1,535	5,419	4,469
Income taxes	9,365	9,730	24,148	24,846
EBITDA	\$ 51,140	\$ 43,076	\$ 127,637	\$ 116,274

For EBITDA information by business segment, see Note 4 to the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements.

Management uses this and other non-GAAP financial measures to exclude the impact of certain income and expenses that must be recognized under GAAP as the excluded amounts are not necessarily reflective of the Company's underlying operating performance and can make comparisons of financial performance between periods more difficult. The Company may exclude additional items if it believes that doing so will result in a more effective analysis and explanation of the underlying financial performance. The exclusion of these items does not imply that they are non-recurring.

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Company's 2016 third quarter unaudited interim period condensed consolidated financial statements and notes to the unaudited interim period 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 13, 2016.

### **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, capital expenditures, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company. 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 capital projects, strategic transactions and integrate acquisitions, the Company's ability to realize benefits from investments in information technology ("IT") and systems, including IT system implementations or unanticipated results from these initiatives and the Company's success in anticipating and managing the foregoing risks. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other risks are outlined in the Risk Management section of the 2015 Annual 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 does not intend 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](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## Consolidated Balance Sheets

(unaudited, \$ in thousands)	October 31, 2016	October 31, 2015	January 31, 2016
<b>CURRENT ASSETS</b>			
Cash	\$ 47,585	\$ 33,907	\$ 37,243
Accounts receivable	77,681	74,068	79,373
Inventories (Note 5)	239,765	227,179	211,736
Prepaid expenses	7,567	8,741	7,229
	<b>372,598</b>	343,895	335,581
<b>NON-CURRENT ASSETS</b>			
Property and equipment	350,725	325,323	345,881
Goodwill	38,739	34,622	37,260
Intangible assets	34,870	24,733	32,610
Deferred tax assets	36,922	29,258	29,040
Other assets	13,938	13,663	13,423
	<b>475,194</b>	427,599	458,214
<b>TOTAL ASSETS</b>	<b>\$ 847,792</b>	\$ 771,494	\$ 793,795
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 155,477	\$ 148,803	\$ 152,136
Current portion of long-term debt (Note 8)	—	6	—
Income tax payable (Note 11)	6,273	2,242	3,365
	<b>161,750</b>	151,051	155,501
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt (Note 8)	259,048	219,037	225,489
Defined benefit plan obligation (Note 17)	49,115	39,259	33,853
Deferred tax liabilities	2,525	2,470	2,630
Other long-term liabilities	15,456	15,452	18,710
	<b>326,144</b>	276,218	280,682
<b>TOTAL LIABILITIES</b>	<b>487,894</b>	427,269	436,183
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 6)	167,910	168,045	167,910
Contributed surplus	2,747	2,705	2,620
Retained earnings	164,364	151,956	156,664
Accumulated other comprehensive income	24,877	21,519	30,418
<b>TOTAL EQUITY</b>	<b>359,898</b>	344,225	357,612
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 847,792</b>	\$ 771,494	\$ 793,795

See accompanying notes to condensed consolidated financial statements.

## Consolidated Statements of Earnings

	<b>Three Months Ended</b> <b>October 31, 2016</b>	Three Months Ended October 31, 2015	<b>Nine Months Ended</b> <b>October 31, 2016</b>	Nine Months Ended October 31, 2015
(unaudited, \$ in thousands, except per share amounts)				
<b>SALES</b>	<b>\$ 463,959</b>	\$ 458,049	<b>\$ 1,363,500</b>	\$ 1,320,823
Cost of sales	(327,330)	(323,769)	(964,579)	(936,561)
Gross profit	<b>136,629</b>	134,280	<b>398,921</b>	384,262
Selling, operating and administrative expenses (Notes 9, 15)	(97,547)	(102,266)	(307,272)	(300,374)
Earnings from operations	<b>39,082</b>	32,014	<b>91,649</b>	83,888
Interest expense (Note 10)	(1,852)	(1,535)	(5,419)	(4,469)
Earnings before income taxes	<b>37,230</b>	30,479	<b>86,230</b>	79,419
Income taxes (Note 11)	(9,365)	(9,730)	(24,148)	(24,846)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 27,865</b>	\$ 20,749	<b>\$ 62,082</b>	\$ 54,573
<b>NET EARNINGS PER SHARE</b>				
Basic	<b>\$ 0.57</b>	\$ 0.43	<b>\$ 1.28</b>	\$ 1.13
Diluted	<b>\$ 0.57</b>	\$ 0.43	<b>\$ 1.27</b>	\$ 1.12
<b>WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)</b>				
Basic	<b>48,523</b>	48,516	<b>48,523</b>	48,505
Diluted	<b>49,058</b>	48,802	<b>49,044</b>	48,790

See accompanying notes to condensed consolidated financial statements.

## Consolidated Statements of Comprehensive Income

	Three Months Ended <b>October 31, 2016</b>	Three Months Ended October 31, 2015	Nine Months Ended <b>October 31, 2016</b>	Nine Months Ended October 31, 2015
(unaudited, \$ in thousands)				
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 27,865</b>	\$ 20,749	<b>\$ 62,082</b>	\$ 54,573
Other comprehensive income/(loss), net of tax:				
<b>Items that may be reclassified to net earnings:</b>				
Exchange differences on translation of foreign controlled subsidiaries	3,843	293	(5,541)	3,079
<b>Items that will not be subsequently reclassified to net earnings:</b>				
Remeasurements of defined benefit plans (Note 17)	—	—	(9,255)	—
Total other comprehensive income/(loss), net of tax	<b>3,843</b>	293	<b>(14,796)</b>	3,079
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 31,708</b>	\$ 21,042	<b>\$ 47,286</b>	\$ 57,652

See accompanying notes to condensed consolidated financial statements.

## Consolidated Statements of Changes in Shareholders' Equity

(unaudited, \$ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCl <sup>(1)</sup>	Total
Balance at January 31, 2016	\$ 167,910	\$ 2,620	\$ 156,664	\$ 30,418	\$ 357,612
Net earnings for the period	—	—	62,082	—	62,082
Other comprehensive loss	—	—	(9,255)	(5,541)	(14,796)
Comprehensive income / (loss)	—	—	52,827	(5,541)	47,286
Equity settled share-based payments	—	127	—	—	127
Dividends (Note 7)	—	—	(45,127)	—	(45,127)
	—	127	(45,127)	—	(45,000)
<b>Balance at October 31, 2016</b>	<b>\$167,910</b>	<b>\$ 2,747</b>	<b>\$164,364</b>	<b>\$ 24,877</b>	<b>\$359,898</b>
Balance at January 31, 2015	\$ 167,460	\$ 2,831	\$ 140,527	\$ 18,465	\$ 329,283
Net earnings for the period	—	—	54,573	—	54,573
Other comprehensive income	—	—	25	3,054	3,079
Comprehensive income	—	—	54,598	3,054	57,652
Equity settled share-based payments	—	201	—	—	201
Dividends (Note 7)	—	—	(43,169)	—	(43,169)
Issuance of common shares (Note 6)	585	(327)	—	—	258
	585	(126)	(43,169)	—	(42,710)
<b>Balance at October 31, 2015</b>	<b>\$ 168,045</b>	<b>\$ 2,705</b>	<b>\$ 151,956</b>	<b>\$ 21,519</b>	<b>\$ 344,225</b>

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements.

## Consolidated Statements of Cash Flows

	<b>Three Months Ended</b> <b>October 31, 2016</b>	Three Months Ended October 31, 2015	<b>Nine Months Ended</b> <b>October 31, 2016</b>	Nine Months Ended October 31, 2015
(unaudited, \$ in thousands)				
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ <b>27,865</b>	\$ 20,749	\$ <b>62,082</b>	\$ 54,573
Adjustments for:				
Amortization	<b>12,058</b>	11,062	<b>35,988</b>	32,386
Provision for income taxes (Note 11)	<b>9,365</b>	9,730	<b>24,148</b>	24,846
Interest expense (Note 10)	<b>1,852</b>	1,535	<b>5,419</b>	4,469
Equity settled share option expense (Note 12)	<b>41</b>	161	<b>127</b>	201
Taxes paid	<b>(6,269)</b>	(3,179)	<b>(26,009)</b>	(24,140)
(Gain) / loss on disposal of property and equipment	<b>224</b>	(1)	<b>1,115</b>	22
	<b>45,136</b>	40,057	<b>102,870</b>	92,357
Change in non-cash working capital	<b>(16,142)</b>	370	<b>(27,491)</b>	(12,965)
Change in other non-cash items	<b>(4,242)</b>	618	<b>(852)</b>	1,680
Cash from operating activities	<b>24,752</b>	41,045	<b>74,527</b>	81,072
<b>Investing activities</b>				
Purchase of property and equipment	<b>(17,573)</b>	(20,433)	<b>(44,817)</b>	(40,323)
Intangible asset additions	<b>(3,043)</b>	(2,126)	<b>(9,098)</b>	(4,682)
Proceeds from disposal of property and equipment	<b>39</b>	13	<b>63</b>	151
Cash used in investing activities	<b>(20,577)</b>	(22,546)	<b>(53,852)</b>	(44,854)
<b>Financing activities</b>				
Net change in long-term debt (Note 8)	<b>15,915</b>	(8,698)	<b>38,694</b>	14,419
Dividends (Note 7)	<b>(15,043)</b>	(15,039)	<b>(45,127)</b>	(43,169)
Interest paid	<b>(1,083)</b>	(883)	<b>(3,480)</b>	(3,180)
Issuance of common shares	—	—	—	258
Cash used in financing activities	<b>(211)</b>	(24,620)	<b>(9,913)</b>	(31,672)
<b>Effect of changes in foreign exchange rates on cash</b>				
	<b>518</b>	23	<b>(420)</b>	232
<b>NET CHANGE IN CASH</b>				
Cash, beginning of period	<b>43,103</b>	40,005	<b>37,243</b>	29,129
<b>CASH, END OF PERIOD</b>	<b>\$ 47,585</b>	\$ 33,907	<b>\$ 47,585</b>	\$ 33,907

See accompanying notes to condensed consolidated financial statements.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 13, 2016.

## 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 annual audited consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2015 Annual 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, as applicable:

- Liabilities for share-based payment plans (Note 12)
- Defined benefit pension plan
- Assets and liabilities acquired in a business combination

The methods used to measure fair values are discussed further in the notes to the Company's 2015 annual audited consolidated financial statements.

**(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

The significant accounting policies are set out in the Company's 2015 annual audited 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

**New Standards Implemented** The Company implemented the amendments to IAS 1, *Presentation of Financial Statements* in 2016 with no significant impact on the Company's unaudited condensed consolidated financial statements. These amendments provide guidance on the application of judgment in the preparation of financial statements and disclosure.

**Future Standards and Amendments** The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2017, and have not been applied in preparing these unaudited condensed consolidated financial statements. The Company is currently assessing the potential impacts of changes to these standards.

**Financial Instruments** The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset by both cash flow characteristics and how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. Additional guidance was also issued on the classification and measurement of financial assets and liabilities, hedge accounting and a single forward-looking expected loss impairment model. It is effective for the Company's financial year ending January 31, 2019, will be applied retrospectively and is available for early adoption.

**Revenue Recognition** In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The IFRS 15 standard contains a comprehensive model which specifies the criteria and timing for recognizing revenue, and also requires additional disclosures in the notes to the financial statements. The core principle of the standard is that revenue is recognized at an amount that reflects the consideration to which the Company is entitled. It is effective for the Company's financial year ending January 31, 2019, will be applied retrospectively and is available for early adoption.

**Leases** In January 2016, the IASB issued IFRS 16, *Leases* which replaces the current guidance in IAS 17 for operating and finance lease accounting. This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. These changes are effective for the Company's financial year ending January 31, 2020, with early adoption permitted provided IFRS 15, *Revenue from Contracts with Customers* is also applied.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the Company.

**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 condensed 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: allowance for doubtful accounts, inventories, 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

### 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. Financial information for these business segments is 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 Statements of Earnings

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015
<b>Sales</b>				
Canada	\$ 281,052	\$ 272,114	\$ 830,398	\$ 804,037
International	182,907	185,935	533,102	516,786
Consolidated	<b>\$ 463,959</b>	\$ 458,049	<b>\$ 1,363,500</b>	\$ 1,320,823
<b>Earnings before amortization, interest and income taxes</b>				
Canada	\$ 35,130	\$ 27,070	\$ 84,412	\$ 77,734
International	16,010	16,006	43,225	38,540
Consolidated	<b>\$ 51,140</b>	\$ 43,076	<b>\$ 127,637</b>	\$ 116,274
<b>Earnings from operations</b>				
Canada	\$ 26,332	\$ 19,146	\$ 58,163	\$ 54,335
International	12,750	12,868	33,486	29,553
Consolidated	<b>\$ 39,082</b>	\$ 32,014	<b>\$ 91,649</b>	\$ 83,888

#### Supplemental information

	October 31, 2016	October 31, 2015	January 31, 2016
<b>Assets</b>			
Canada	\$ 546,405	\$ 487,071	\$ 501,268
International <sup>(1)</sup>	301,387	284,423	292,527
Consolidated	<b>\$ 847,792</b>	\$ 771,494	\$ 793,795

(1) Total assets includes goodwill of \$38,739 (October 31, 2015 - \$34,622; January 31, 2016 - \$37,260).

	Three Months Ended October 31, 2016		Three Months Ended October 31, 2015		Nine Months Ended October 31, 2016		Nine Months Ended October 31, 2015	
	Canada	International	Canada	International	Canada	International	Canada	International
	Purchase of property and equipment	\$ 13,983	\$ 3,590	\$ 18,499	\$ 1,934	\$ 37,735	\$ 7,082	\$ 35,872
Amortization	\$ 8,798	\$ 3,260	\$ 7,924	\$ 3,138	\$ 26,249	\$ 9,739	\$ 23,399	\$ 8,987

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. INVENTORIES

Included in cost of sales for the three months ended October 31, 2016, the Company recorded \$145 (three months ended October 31, 2015 – \$240) for the write-down of period end inventories as a result of net realizable value being lower than cost. For the nine months ended October 31, 2016 the Company recorded \$895 (nine months ended October 31, 2015 – \$1,183) for the write-down of period end 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, 2016 or 2015.

### 6. SHARE CAPITAL

**Authorized** – The Company has an unlimited number of shares.

	Shares	Consideration
Balance at January 31, 2016	<b>48,523,341</b>	\$ 167,910
Issued under option plans (Note 12)	—	—
<b>Balance at October 31, 2016</b>	<b>48,523,341</b>	\$ 167,910
Balance at January 31, 2015	48,497,199	\$ 167,460
Issued under option plans (Note 12)	21,701	585
Balance at October 31, 2015	48,518,900	\$ 168,045

### 7. DIVIDENDS

	Nine Months Ended	Nine Months Ended
	October 31, 2016	October 31, 2015
Dividends paid in cash	\$ 45,127	\$ 43,169
Dividends per share	\$ 0.93	\$ 0.89

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 consolidated financial statements in the period in which they are approved by the Board of Directors.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 8. LONG-TERM DEBT

	October 31, 2016	October 31, 2015	January 31, 2016
<b>Current:</b>			
Finance lease liabilities	—	6	—
<b>Non-current:</b>			
Revolving loan facilities <sup>(1)</sup>	\$ —	\$ 6,482	\$ 7,946
Revolving loan facilities <sup>(2)</sup>	—	13,083	—
Revolving loan facilities <sup>(3)</sup>	<b>165,411</b>	108,109	119,193
Senior notes <sup>(4)</sup>	<b>93,637</b>	91,363	98,350
	<b>\$ 259,048</b>	\$ 219,037	\$ 225,489
Total	<b>\$ 259,048</b>	\$ 219,043	\$ 225,489

(1) The committed, revolving U.S. loan facility provides the International Operations with up to US\$40,000 for working capital requirements and general business purposes. This facility matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At October 31, 2016, the International Operations had drawn US\$NIL (October 31, 2015 – US\$4,955; January 31, 2016 – US\$5,643) on this facility.

(2) In March 2016, the Company completed the refinancing of the US\$52,000 loan facilities maturing December 31, 2018 which bore interest at U.S. LIBOR plus a spread. The new committed, revolving loan facilities in the International Operations mature April 29, 2021 and bear interest at U.S. LIBOR plus a spread. These loan facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$300,000 Canadian Operations loan facilities. At October 31, 2016, the Company had drawn US\$NIL (October 31, 2015 – US\$10,000; January 31, 2016 – US\$NIL) on these facilities.

(3) In March 2016, the Company completed the refinancing of the \$200,000 loan facilities maturing December 31, 2018 which bore a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate. The new increased, committed, revolving loan facilities provide the Company's Canadian Operations with up to \$300,000 for working capital and general business purposes. The facilities mature April 29, 2021 and are secured by certain 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.

(4) The US\$70,000 senior notes mature June 16, 2021, have a fixed interest rate of 3.27% on US\$55,000 and a floating interest rate on US\$15,000 based on U.S. LIBOR plus a spread. The senior notes are secured by certain assets of the Company and rank *pari passu* with the \$300,000 Canadian Operations loan facilities and the US\$52,000 loan facilities in the International Operations.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 9. EMPLOYEE COSTS

	Three Months Ended <b>October 31, 2016</b>	Three Months Ended October 31, 2015	Nine Months Ended <b>October 31, 2016</b>	Nine Months Ended October 31, 2015
Wages, salaries and benefits including bonus	\$ 63,063	\$ 60,068	\$ 184,881	\$ 174,674
Post employment benefits	1,704	1,730	5,427	5,381
Share-based compensation (Note 12)	(4,768)	3,719	(51)	8,470

### 10. INTEREST EXPENSE

	Three Months Ended <b>October 31, 2016</b>	Three Months Ended October 31, 2015	Nine Months Ended <b>October 31, 2016</b>	Nine Months Ended October 31, 2015
Interest on long-term debt	\$ 1,573	\$ 1,269	\$ 4,556	\$ 3,847
Net interest on defined benefit plan obligation	329	313	988	937
Interest income	(24)	(14)	(72)	(94)
Less: interest capitalized	(26)	(33)	(53)	(221)
Interest expense	\$ 1,852	\$ 1,535	\$ 5,419	\$ 4,469

### 11. INCOME TAXES

The estimated effective income tax rate for the three months ended October 31, 2016 is 25.2% (three months ended October 31, 2015 – 31.9%) and for the nine months ended October 31, 2016 is 28.0% (nine months ended October 31, 2015 – 31.3%). The Company estimates its effective income tax rate on a weighted-average basis by determining the income tax rate applicable to each taxing jurisdiction and applying it to its pre-tax earnings. Changes in the effective income tax rate primarily reflect changes in earnings of the Company's subsidiaries across various tax jurisdictions and the impact of a recovery of non-tax deductible share based compensation costs.

### 12. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Performance Share Units (PSUs); Share Options; Director Deferred Share Units (DDSUs); Executive Deferred Share Units (EDSUs) and an Employee Share Purchase Plan. 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.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The total expense relating to share-based payment plans for the three months ended October 31, 2016 is a recovery of \$4,768 (three months ended October 31, 2015 - expense of \$3,719) and for the nine months ended October 31, 2016 is a recovery of \$51 (nine months ended October 31, 2015 – expense of \$8,470). The carrying amount of the Company's share-based compensation arrangements including PSU, share option, DDSU and EDSU plans are recorded on the consolidated balance sheets as follows:

	<b>October 31, 2016</b>	October 31, 2015	January 31, 2016
Accounts payable and accrued liabilities	<b>\$ 7,988</b>	\$ 9,371	\$ 10,067
Other long-term liabilities	<b>9,825</b>	8,045	12,472
Contributed surplus	<b>1,177</b>	1,136	1,052
Total	<b>\$ 18,990</b>	\$ 18,552	\$ 23,591

### Performance Share Units

The Company has granted Performance Share Units 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 units granted at the end of the vesting period based on 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 PSUs. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. Compensation expense is measured initially based on the fair market value of the Company's shares at the grant date and subsequently adjusted for additional shares granted based on the reinvestment of notional dividends and the market value of the shares at the end of each reporting period. 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.

Compensation costs related to the PSUs for the three months ended October 31, 2016 are \$60 (three months ended October 31, 2015 – \$1,419) and for the nine months ended October 31, 2016 are \$1,655 (nine months ended October 31, 2015 – \$3,304).

### 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 options exercise price or to exercise the option at the strike price specified at the grant date ("Declining Strike Price Options"). Options issued prior to June 14, 2011 and certain options issued subsequently are standard options ("Standard Options"). Each option is exercisable into one share of the Company at the price specified in the terms of the option. Declining Strike Price options allow the employee 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 Declining Strike Price Options is remeasured at the reporting date and recognized both in net earnings and as a liability over the vesting period. The grant date fair value of the Standard Options is recognized in net earnings and contributed surplus over the vesting period.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2016. Fair value of the Company's 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 cost recorded for the three months ended October 31, 2016 is a recovery of \$3,981 (three months ended October 31, 2015 – expense of \$1,788) and for the nine months ended October 31, 2016 is a recovery of \$2,077 (nine months ended October 31, 2015 – expense of \$3,383).

The fair values for options issued during the nine months ended October 31 were calculated based on the following assumptions:

	2016	2015
Fair value of options granted	<b>\$ 2.80 to \$ 3.88</b>	\$ 2.17 to \$ 3.42
Exercise price	<b>\$ 28.81</b>	\$ 25.63
Dividend yield	<b>3.9%</b>	4.6%
Annual risk-free interest rate	<b>0.5% to 0.7%</b>	0.4% to 0.7%
Expected share price volatility	<b>19.8%</b>	19.9%

The assumptions used to measure cash settled options at October 31 were as follows:

	2016	2015
Dividend yield	<b>4.8%</b>	4.3%
Annual risk-free interest rate	<b>0.6% to 0.7%</b>	0.6% to 0.9%
Expected share price volatility	<b>19.7% to 25.6%</b>	17.4% to 19.4%

The expected dividend yield is estimated based on the quarterly dividend rate and the closing share price on the date the options are granted. 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.

The following continuity schedules reconcile the movement in outstanding options during the nine months ended October 31:

Number of options outstanding	Declining Strike Price Options		Standard Options	
	2016	2015	2016	2015
Outstanding options, beginning of period	<b>1,659,664</b>	1,207,995	<b>400,045</b>	391,876
Granted	<b>454,057</b>	491,096	<b>68,564</b>	81,461
Exercised	—	(39,427)	—	(29,737)
Forfeited or cancelled	—	—	—	(30,155)
Outstanding options, end of period	<b>2,113,721</b>	1,659,664	<b>468,609</b>	413,445
Exercisable at end of period	<b>516,260</b>	223,575	<b>231,925</b>	190,267

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	2016	2015	2016	2015
Outstanding options, beginning of period	\$ 23.67	\$ 22.79	\$ 21.86	\$ 20.88
Granted	28.81	25.63	28.81	25.63
Exercised	—	21.14	—	19.59
Forfeited or cancelled	—	—	—	22.52
Outstanding options, end of period	\$ 24.77	\$ 23.67	\$ 22.88	\$ 21.77
Exercisable at end of period	\$ 18.50	\$ 18.66	\$ 19.95	\$ 19.30

Options outstanding at October 31, 2016 have an exercise price range of \$15.25 to \$28.81 and a weighted-average remaining contractual life of 4.3 years.

### Director Deferred Share Unit Plan

This plan 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 DDSU plan. Each deferred share unit entitles the holder to receive a share of the Company. The DDSUs 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 DDSUs, 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 DDSUs.

Compensation expense is measured based on the fair market value at each reporting date. Subsequent changes in the fair value of the DDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The DDSU plan compensation cost recorded for the three months ended October 31, 2016 is a recovery of \$890 (three months ended October 31, 2015 – expense of \$377) and for the nine months ended October 31, 2016 is a recovery of \$205 (nine months ended October 31, 2015 – expense of \$1,199). The total number of DDSUs outstanding at October 31, 2016 is 206,809 (October 31, 2015 – 176,256). There were no DDSUs exercised during the nine months ended October 31, 2016 (nine months ended October 31, 2015 – 22,895).

### Executive Deferred Share Unit Plan

This plan provides for the granting of deferred share units to those executives who elect to receive a portion of their annual short-term incentive payment in EDSUs, subject to plan limits. Effective April 2016, participants will be credited with EDSUs based on the amount of their short-term incentive payment allocated to the plan and the fair market value of the Company's shares. The EDSU account for each participant includes the value of dividends from the Company as if reinvested in additional EDSUs. The EDSUs are exercisable at any time after the executive ceases to be an employee of the Company, but no later than December 31 of the first calendar year commencing after the holder ceased to be an employee. Each EDSU entitles the holder to a cash payment equal to the market value of the equivalent number of the Company's shares, determined based on their closing price on the TSX on the trading day preceding the exercise date.

Total compensation expense is measured at the time of the grant. Subsequent changes in the fair value of the EDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The EDSU plan compensation cost recorded for the three months ended October 31, 2016 is a recovery of \$100 (three months ended October 31, 2015 – \$NIL) and for the nine months ended October 31, 2016 is a recovery of \$57 (nine months ended October 31, 2015 – \$NIL). There were no EDSUs redeemed during the nine months ended October 31, 2016 and 2015.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 cost recorded for the three months ended October 31, 2016 is \$143 (three months ended October 31, 2015 – \$135) and for the nine months ended October 31, 2016 is \$633 (nine months ended October 31, 2015 – \$584).

### 13. 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. 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.

### 14. SUBSIDIARIES AND JOINT VENTURES

The Company's principal operating subsidiaries are set out below:

			Proportion of voting rights held by:	
	Activity	Country of Organization	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 unit)	
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	99%	1%

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

### 15. EXPENSES BY NATURE

	Three Months Ended		Nine Months Ended	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Employee costs	\$ 59,999	\$ 65,517	\$ 190,257	\$ 188,525
Amortization	12,058	11,062	35,988	32,386
Operating lease rentals	7,499	7,346	22,473	21,654
Other income	(7,315)	(7,314)	(22,847)	(22,389)

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 16. FINANCIAL INSTRUMENTS

#### Accounting classifications and fair value estimation

The following table comprises the carrying amounts of the Company's financial instruments. All of the Company's financial instruments are carried at amortized cost using the effective interest rate method.

These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

		Assets (Liabilities) carried at amortized cost		
	Maturity	Carrying amount		Fair value
Cash	Short-term	\$ 47,585	\$	47,585
Accounts receivable	Short-term	77,681		77,681
Other financial assets	Long-term	1,359		1,359
Accounts payable and accrued liabilities	Short-term	(155,477)		(155,477)
Long-term debt	Long-term	(259,048)		(261,938)

The methods and assumptions used in estimating the fair value of the Company's financial instruments are as follows:

- The fair value of short-term financial instruments approximates their carrying values due to their immediate or short-term period to maturity. Any differences between fair value and book values of short-term financial instruments are considered to be insignificant.
- The fair value of debt with fixed interest rates in an effective fair value hedging relationship is estimated by discounting the expected future cash flows using the current risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium for the Company's credit profile.

### 17. POST EMPLOYMENT BENEFITS

A remeasurement of the defined benefit pension plan assets and liabilities was performed at July 31, 2016. During the three months ended July 31, 2016, the Company recorded net actuarial loss on its defined benefit plan obligation of \$9,255 in other comprehensive income, which was recognized immediately in retained earnings.

This remeasurement was primarily due to a change in the discount rate used to measure the defined benefit obligation. The discount rate used to determine the benefit obligation for the defined benefit pension plan at July 31, 2016 was 3.25% (January 31, 2016 - 4.00%).

There was no such remeasurement during the three months ended October 31, 2016 and nine months ended October 31, 2015.

### 18. SUBSEQUENT EVENTS

On December 13, 2016, the Board of Directors declared a dividend of \$0.31 per common share payable January 16, 2017 to shareholders of record on December 30, 2016.

## **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **19. COMPARATIVE FIGURES**

Certain of the prior year figures have been reclassified to conform with the presentation adopted in the current year. Other long-term liabilities increased to \$15,452 on the consolidated balance sheets for the period-ended October 31, 2015 compared to \$10,941 previously reported. A corresponding adjustment has been made in accounts payable and accrued liabilities.